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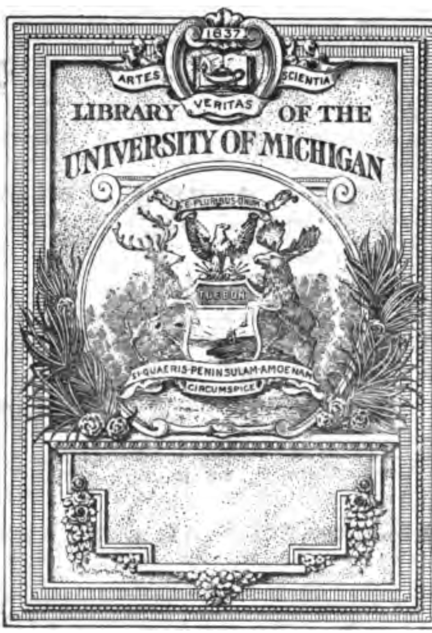

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PREFACE.

THIS little work has been compiled with two main objects. In the first place, it is an attempt to lay down, within the limits of a book of moderate size, the main duties of Auditors, and the principles affecting their work. In the second place, regard has been had to the needs and requirements of students for examinations, in the choice and treatment of the subjects dealt with.

As most Accountants are aware, there are already two eminent classical works in the field, by Mr. Pixley and Mr. Dicksee respectively; but many find these works too cumbersome, and it has been the effort of the author to produce a volume of portable size, giving information in as concise a form as possible, and rid of any Acts of Parliament, law reports, or other matter not of special or vital interest to Auditors.

For the convenience of students, page references to the works of Messrs. Pixley and Dicksee have been given in the Index, side by side with the page number on which the various subjects are dealt with in this volume.

ARTHUR E. CUTFORTH.

Woodford Green,
January 1908.

AUDITS.

CHAPTER I.

AUDITOR'S DUTY WITH REGARD TO VARIOUS ITEMS OF PROFIT AND LOSS, &C.

Purchases.—

VOUCH the Bought Day Book with the invoices, examining the date of each invoice; seeing that it is made out to the company, that it is initialled as being correct, and noticing whether the kind of goods bought are such as you would expect to find in the particular business. See that, if purchases of different kinds are kept separate, each item is extended into its proper analysis column.

Check the postings of the Bought Day Book into the Bought Ledger, and the total or totals to the debit of the various Purchase Accounts.

Check the rest of the postings in the Bought Ledger from other books, such as Cash Book and Bought Returns Book; check the additions and balances of the Bought Ledger.

An independent check on whether purchases have been left out of the books altogether is to compare the rate of gross profit on sales with that of former years; and, if

such rate of gross profit varies to any great extent, to inquire into the reason for it. This may be caused by goods having been taken into stock, the invoices relating to which have not been yet passed through the Bought Day Book.

It is well to inquire in all cases whether sufficient care is taken at stocktaking to ensure that each purchase made in the last few days of the financial period is either taken into the accounts as purchases and as stock, or left out of both.

(See also under "Inclusion of all Liabilities.")

Cash and Credit Sales.—

As regards Cash Sales, the auditor would inquire into the system of ensuring that cash received for such sales was duly accounted for; and the same remark applies to cash received on account of credit sales.

With respect to Credit Sales unpaid for at date of Balance Sheet, the auditor would see that nothing of the nature of goods on sale or return was included therein. He would also inquire whether it would be possible for any sales entered during the last day or so of the financial period to be in respect of goods which had been taken into stock for Balance Sheet purposes. An independent check on any large errors of this kind would consist in the comparison of the percentage of gross profit on sales with that of previous years. (See also under "Purchases" and "Stock.")

Wages.—

(1) Ascertain first of all whether a good system of paying wages is in force—that is to say, one which minimises,

as far as possible, the chance of fraud. Some points in a good system would be:—

(*a*) That the clerks making up the Wages Sheets have nothing to do with the actual payment of the money.

(*b*) That the foremen furnishing details of time spent or piecework done by each workman have nothing to do with making the extensions or additions of the Wages Sheets or the payment of the money.

(*c*) That each workman must attend personally to receive his wages unless his representative holds an order signed by the manager or other responsible person.

(*d*) That the wages must be paid in the presence of the manager or other responsible official.

(2) Check the additions of the Wages Sheets; also a few extensions here and there.

(3) See that the weekly totals are each signed for as correct by those responsible.

(4) Vouch the Cash Book payments with the totals.

(5) Compare weekly totals with each other, satisfying yourself that good reasons exist for any large fluctuations.

(6) Look through the Wages Book and see that no large sums appear to have been paid to any one man.

Salaries.—

No hard and fast rules can be laid down as to the work to be done by the auditor in this respect, as the system of paying salaries, and consequently the risk of fraud, varies in different concerns. The following particulars may serve as a guide to what may have to be done.

Where proper receipts are given for salaries, the auditor should vouch the Salaries Book or List with these, and then vouch the total into the Cash Book.

Where no receipts are given, the Salary List or Book should be certified as correct each week, or month, as the case may be, by the secretary or manager of the company. Where the secretary or manager himself pays the salaries, the auditor should obtain one of the directors' signatures to the Salary Book.

The Minute Book will probably contain particulars of any increases in the salaries of secretaries or general managers, and in such cases, when payment is made by cheque, the returned endorsed cheques should be produced to the auditor when no other receipt is given.

The weekly or monthly totals of salaries should be compared, and satisfactory explanations obtained of any large fluctuations in these amounts as between one period and another.

Rents, Rates, and Taxes.—

See the receipt on proper form for each payment, and see that the period covered by the payment, as shown by the receipt or by the demand note, is correctly stated in the Cash Book.

At the end of the year go through the Ledger Accounts for rent, rates, and taxes, and see that payments have been made in each case when due, and that the period is covered by such payments. (For rents, rates, and taxes outstanding, see under "Inclusion of all Liabilities.")

Compare each account with the corresponding one of the previous year and note any fluctuations. In the case of

new rents payable, get particulars of these from the copies of the leases or agreements with the landlord; the Minute Book might also be referred to in this connection.

Directors' Fees.—

In addition to seeing the directors' receipts for their fees, see the minutes of the meeting of shareholders at which the fees were fixed, and, of course, the minutes of any meeting at which an increase is sanctioned.

In any case, see that the remuneration is not in excess of the maximum allowed by the company's articles of association, unless the shareholders have, by special resolution, altered the articles in this respect.

Payment of Commissions.—

Inspect the actual agreement with the agent, traveller, or other person in receipt of commission, and see that the actual payments are in accordance with the terms of the agreement.

See the directors' minute (if there is one) as to the agreement.

Dividends and Interest Receivable.—

At the end of the year go through the Ledger Account of each investment and see that the correct amount of interest has been received when due.

In the case of dividends, see the counterfoils of the Dividend Warrants, which contain particulars of the amount of dividend paid and the period covered by the payment.

In the case of no dividend at all having been received on any particular stock or shares, it might be advisable

to refer to some reference book on Stock Exchange securities, to ascertain that no dividend has, in fact, been paid on such security during the year.

Rents Receivable.—

When these are very numerous the auditor should in the first place see a rent roll or list of the different properties and the rents receivable from each. This list should be certified to as being correct by his client, or, in the case of a limited company, by the general manager, or one of the directors.

Having thus obtained an account of what rents are receivable on a certain date, he should check each year the rents received with the counterfoils of the receipts given, seeing that the correct amount of rent from each property is received when due. Any rents in arrear, or written off as irrecoverable, should be carefully inquired into, and gone through with some person other than the one who collects the rents. The auditor should see also that all new properties purchased are duly entered on the rent roll; that all recoverable arrears are carried forward to the next period, and that, if possible, all allowances to tenants for taxes or repairs, &c., and all increases or reductions made in rents, are vouched for as being correct by an independent person.

Royalties Receivable.—

See the agreement with the person, firm, or company, from whom the royalty is due, and from it note the terms of the royalty. See the account from the payer, to satisfy yourself that it is in accordance with the terms of the agreement.

Ascertain whether those receiving the royalty have any check upon the amount on which this account states that the royalty is due, and, if so, see how the figure is arrived at.

If any royalty receivable has got in arrear inquire into the reason, and, if there is a doubt as to the likelihood of its being ultimately received, see that a due reserve is made against the amount taken credit for.

Transfer Fees.—

Count the actual transfers themselves, duly signed by the transferor and the transferee and witnessed. These are often pasted in a book, and when a number of transfers are passed at a board meeting, a director initials or signs this book where the last transfer is stuck in. Where transfers are very numerous, as in the case of a mining company whose shares are continually changing hands on the market, the auditor should see that the cash received for transfer fees is paid into bank at frequent intervals. Further verification of the amount which should be received for transfer fees can be obtained by adding up the number of transfers passed at each board meeting, as shown by the Minute Book, and also by checking the postings of the Transfer Register into the Share Ledger, and seeing that a fee has been received for each transfer recorded in the Share Books.

Payment of Dividends.—

(1) See the minute authorising the payment of dividend.

(2) Vouch the Net Dividend column in the Dividend Book with the returned endorsed Dividend Warrants.

(3) Check the items of the same column with the Dividend Pass Book, and agree the total of outstanding warrants with the balance of the Pass Book.

(4) Verify the balance of the Dividend Account by writing to the bank.

(5) See that the total of the Dividend Book agrees with the percentage of the dividend on the share capital on which it is paid, after allowing for the deduction of income-tax at the prevailing rate.

(6) Check the additions of the Dividend Book.

CHAPTER II.

AUDITOR'S DUTY WITH REGARD TO VARIOUS BALANCE SHEET ITEMS.

Cash in Hand—

This can be verified by actually counting the cash; or, if the auditor does not attend on the date of the accounts, he can audit the Cash Book or Petty Cash Book right up to date and then count the cash, in order to see that it agrees with the balance of the Cash Book. In this way he can guard against the cash balance having been made up by means of a cheque drawn before, but entered after, the date of inspection. It need hardly be said that where there is more than one Cash Book, or Petty Cash Book, the balances represented by all these books should be counted at one time, otherwise the same money can be produced twice, as representing part of the balances of two different books.

Cash at Bank—

On Current Account.—

The auditor should check the reconciliation between the balance as shown by the Cash Book and that of the Pass Book. He should also write to the bank, asking for particulars of the balances standing in the name of his clients on the date in question.

On Deposit Account.—

The bank should be written to, as in the case of a Current Account balance. Some banks give receipts for money placed on deposit, which have to be given up when

the money is taken out. The auditor might in this case see the deposit receipts, the totals of which would amount to the sum on deposit.

Investments.—

These may be represented by certificates, bonds, or scrip; or the investment may be an inscribed stock. In the first three cases the auditor will actually inspect the security. The certificates will be made out in the name of the client, and will bear the company's seal, and be duly signed by the officers of the company. Bonds may be made out like certificates, or may be to bearer; the auditor should see that coupons for the payment of interest not yet due are all attached to the bond.

Scrip is issued for shares or stock not fully paid up, and the auditor should see that it contains the signature of the bankers for each call which they have received. When all calls have been paid, the company issues a certificate in exchange for the scrip upon which their bankers' receipts for all the calls appear.

In the case of inscribed stock the only evidence of title is that the stock appears in the names of its holders in the books of the bank where such stock is inscribed.

To verify this, the auditor sends to the bank where the stock is inscribed a form signed by one of the stockholders, containing particulars of the stock held, together with a fee which the bank charges for this verification. The bank certifies these particulars as correct and returns the form.

Government securities, like Consols, are inscribed at the Bank of England, and the fee for verifying is 1s., with an addition of 6d. for every stock over two. Some

Colonial securities are inscribed at the London and Westminster Bank, others at the offices of the Crown Agents for the Colonies; the procedure as to verifying is much the same in all cases.

Book Debts.—

In addition to the ordinary checking in connection with the agreement of the Sales Ledgers, the auditor must satisfy himself that bad debts have been written off and that the doubtful debts have been reserved against, and that, where it is customary to reserve for discounts, such discount reserve has been properly calculated, having regard to the length of credit and percentage of discounts given.

It is customary for the auditor, when checking Sales Ledger balances on the schedules, to take a note of any that appear to him doubtful or bad, by reason of their age or of the date of the last payment in reduction of the account, and he may be guided by pencil notes such as "In solicitor's hands," "Dividend of —— in the £," "Composition with creditors."

He should then go through the list of balances with an official of the company, and raise the queries contained in his notes, and obtain an idea of the proportion of these doubtful debts which will ultimately be recovered. He will then be in a position to judge whether the reserve made by the company against bad and doubtful debts is adequate.

It is, of course, impossible to lay down any hard and fast rules as to how old a debt can be consistently with its being called good, as the length of credit varies very much in different businesses; and, besides this, so much

depends on the class and status of the customers, and the facilities by which the business can keep in touch with them.

For instance, a gas company's arrears of rental should never be very high, as the consumer would find himself cut off if he let his quarterly payments lapse for any length of time, and debts written off as bad usually arise from empty houses where the former occupiers have left no trace of their whereabouts. A West-end tailor, on the other hand, often gives a year's credit, and in many cases would not consider a three-year-old debt doubtful, as his customer would in all probability pay a round sum each year on account, and might be charged with interest on his balance.

The auditor, therefore, in forming an opinion as to the value of book debts, must take into account the special circumstances obtaining in the particular business.

A method of treating the reserve against bad debts from year to year, adopted in many cases, is to create a reserve of a certain percentage of the book debts; to write off bad debts made during the year against this figure, and then at the end of the year to add to the reserve from Profit and Loss such a sum as will bring the reserve up to the fixed percentage of the book debts at that particular time.

Bills Receivable.—

The auditor should inspect the actual bills making up the balance of the Bills Receivable Account. He should see that they are correctly drawn, dated, stamped, and accepted, and that they are not overdue. Where

bills fall due between the date of the Balance Sheet and the date of the audit, and the auditor has not attended on the first date to examine the bills, he should see that they have been properly met when due, by tracing them into the debit side of the Cash Book.

Stock in Trade.—

The general rule for valuing stock in trade for the purpose of preparing accounts is that it should be taken at cost or market price, whichever is lowest at the stocktaking date. Due allowance should be made for any stock which has depreciated in value owing to age, wear and tear, dirt and dust, or to its having become obsolete.

In the case of manufactured or partly-manufactured stock, a proportion of the expenses of manufacture can be added to the cost of the raw material in fixing the value.

The duties of the auditors with regard to stock in trade were fully set out in the *Kingston Cotton Mill* case (see p. 92). An auditor has to accept the certificate of one of a company's officials as to the figure of stock in trade, but at the same time, where practicable, he applies tests here and there in order to form an idea that this asset has not been overstated. Therefore, he would roughly check the cast of the Stock Books or Sheets. He would check some extensions; he would compare the prices with those on some recent invoices for goods purchased by the company, or with the prices quoted in some trade paper. He would see that the rate per cent. of gross profit on sales did not vary much with the rates of past years. He would inquire

whether it would be possible for goods to come into stock during the last few days of the year without having been charged up as purchases. He would compare the total of stock with that of previous years and ask for an explanation of any large rise or fall in amount, and where the stock was divided as between various departments he would compare the totals of each individual department year by year. In cases where Stock Accounts were kept during the year showing the amount of stock coming in and going out, the auditor might compare the figure of stock on hand as shown by these books with that actually on hand as shown by the stocktaking.

Finally, he would ascertain that the additions and extensions of the Stock Books or Sheets had been properly checked, and he would obtain from the manager or other person responsible for stocktaking a certificate that the figure shown by such books was to the best of his knowledge correct.

Plant and Machinery.—

Where a newly-formed company has taken over plant and machinery from a vendor, experts are usually employed to value this asset, and the valuer's certificate should be seen by the auditor, and compared with the sum with which Plant and Machinery Account is first debited.

For subsequent purchases of plant and machinery, the invoices, as well as the usual receipts, should be carefully inspected, in order to see that no items properly chargeable to upkeep or repairs have been capitalised.

The amount of depreciation to be written off plant and machinery depends very much on its nature. Fast running machinery depreciates very rapidly; while heavy fixed plant as a rule lasts longer, with the exception of boilers, which wear out comparatively soon. Where substances like wood and lead are used for such purposes as lining vats, their replacement is continuous and would be charged to revenue. After charging all repairs, and replacements of this nature to revenue, the depreciation to be written off plant would vary from 7 to 15 per cent. off the reducing balance of the account. The auditor should, in addition, see that any sales of old plant are credited to Plant Account, and that where part of plant or machinery has become obsolete, or its use is discontinued, special provision is made for this fact in calculating depreciation.

In the case of small articles such as loose tools, the best plan is to have a re-valuation made each year, and an auditor would deal with the details of this valuation as he would with the ordinary taking of stock.

Mortgages.—

Where an asset is represented by the loan of money on mortgage, the auditor should see the title deeds and the mortgage deed.

Where the mortgage is a second one, the auditor should see a statement from the first mortgagee that the title deeds are in his possession, and that he has had due notice of the existence of the second charge.

Land and Buildings.—

Where these are freehold the auditor will see the actual title deeds. In the case of leaseholds he should

inspect the lease, and ascertain that the consideration as shown in the lease corresponds with the amount at which the leasehold interest was taken into the books.

If property is mortgaged, a statement should be obtained from the mortgagee as to the amount of the mortgage.

Patents.—

The life of a British patent is fourteen years, and, as a matter of sound finance, the cost of acquiring any such patent should be written off against profits within that time: legally there is no necessity to do so.

The work of obtaining a patent is usually placed in the hands of special patent agents, and their accounts, accompanied by certificates from the Patent Office, should be carefully examined by the auditor, to see that only costs of acquiring patents are capitalised, and that yearly payments of patent fees are charged direct to Profit and Loss.

In some cases the patents owned by a company may have been bought from a syndicate, and the agreement between the syndicate and the company as to purchase price must be examined by the auditor.

The company's Articles of Association and the Minute Book should be examined for any provisions or directions as to writing down this asset.

Goodwill.—

This item in a company's Balance Sheet represents the difference between the value of assets taken over by the company and the purchase price of the business; and to verify the amount at which it is entered the

auditor would refer to the agreement between the company and the vendor, or vendors.

There is no legal necessity to write down Goodwill (p. 83), though it is often done as a precautionary measure, and the auditor's duty with regard to this asset would be to read in the first place the articles of association for any provisions concerning it, and in the second place the minutes of directors' and shareholders' meetings for the same purpose.

Preliminary Expenses.—

These are expenses incurred by a company in connection with its formation and promotion, and would include the following:—

Cost of printing Prospectus.
Cost of advertising Prospectus.
Cost of printing Memorandum and Articles of Association.
Professional Charges of Accountants for giving certificate of profits.
Professional Charges of Valuers for valuation of property, &c.
Commission for underwriting Shares.
Commission to Brokers for placing Shares.
Cost of new Share Books.
Registration Fees.

In addition to seeing vouchers for such expenses, it is the duty of the auditor to see that only expenses properly so chargeable have been debited to Preliminary Expenses Account.

In companies where the Double-Account System is adopted, such as railways and gas and water companies,

the total of preliminary expenses stands in the Capital Account, where it remains for ever; but in ordinary cases, under the Single-Account System, it is usual to write off preliminary expenses within three to five years, though there is no legal obligation to do so.

It not infrequently happens that the vendors, or the promoters of a company, agree to pay part or all of the preliminary expenses, and it is always advisable for the auditor to read the agreements between these persons and the company, in order to see that the company has not borne any expenses of this kind which, under the terms of the agreement, it is not liable to bear.

Sums Paid in Advance.—

In order to vouch the amount stated under this head on the assets' side of the Balance Sheet, the receipt, accompanied by the demand note for the last payment, should be seen; the period covered by the payment noted, and the proportion relating to the period after the Balance Sheet date calculated, which proportion can be brought forward as a debit balance. Such sums would include:—

Telephone Rent.

Fire Insurance.

Rates.

Subscriptions to various Agencies, Papers, Institutes, &c.

Issue of Share Capital.—

In this connection the auditor would:—

See that the capital issued is not in excess of the capital authorised, as shown by the company's memorandum of association.

Vouch the Application and Allotment Sheets with the Application Letters, in order to see that the shares allotted have been actually applied for.

See the minute of the directors as to allotment, or that the directors have initialled or signed the Application and Allotment Sheets; in order to ascertain that the total number of shares allotted is as per the directors' resolution.

See that the application and allotment money has been duly paid into bank; and agree the balance of the Pass Book with the Application and Allotment Account in the Ledger. Verify the Pass Book balance by writing to the bank.

Check the additions of the Application and Allotment Sheets.

Check the postings of the cash received into the Share Registers and see that the total balances of the Share Registers equal total capital issued.

In the Case of Calls.

See the minute authorising the call.

See that the cash received on account of the call has been duly paid into the bank. Agree the Call Account Pass Book balance with the total cash received, and verify the balance at bank.

Check the cash received into the Share Registers and agree total of Share Registers balances with total capital issued.

In the Case of Shares issued otherwise than for Cash.

See that the arrangement is not contrary to any provision in the articles of association.

See the Minute Book for the resolution as to the issue.

See the agreement between the company and the holder of the shares.

CHAPTER III.

PROGRAMMES OF AUDITS OF VARIOUS KINDS.

PROGRAMME OF AUDIT FOR A BANK.

It is, of course, impossible for an auditor of a bank to perform a detailed audit, and he has to rely to a great extent upon the system of internal check, which is usually as perfect as possible. The auditor's duties consist chiefly, therefore, in becoming acquainted with the details of the internal check system of the bank, in verifying the existence of all the assets on the Balance Sheet, and in seeing, as far as possible, that all liabilities have been included.

The following work would, in all probability, have to be done by him :—

AT THE CLOSE OF BUSINESS ON THE DATE OF THE ACCOUNTS.

Attend at the bank and count the cash, bank notes, postal orders, cheques, &c., forming the Cash Balance. At the same time see the discounted bills which fall due in the first few days of the new half-year, and which will be met or out for collection at the time of the audit of the books.

WHEN THE ACCOUNTS ARE READY.

Bills.—

Examine the discounted bills which have not been already seen, checking them into the Bill Calendar.

See that a rebate of interest has been made on account of these discounted bills.

Check the balances of the Bills Discounted Ledger on to a schedule of these balances, and see that the total equals the total amount of the bills seen.

Deposit Accounts.—

Check balances of Deposit Ledgers on to schedules. Vouch the credit side of Deposit Ledgers with counterfoil deposit receipts.

Loans.—

Check balances of the Loan Ledgers on to schedules.

Go through list of Loan Ledger balances with the Customers' Securities Book, seeing that sufficient cover exists on all loans, as per Securities Book.

Take a note of certain securities from the Securities Book, and actually inspect these.

Current Accounts.—

Check Current Ledger balances on to schedules, and in the case of overdrawn balances see whether the bank holds any security for these, or whether the overdrawn account is in credit at time of audit, otherwise ask for an explanation.

Compare balances of a certain number of Pass Books with the balances in the current Ledgers.

See that the balances of Current, Deposit, Loan, and Discount Ledgers equal balances of the total Ledger Accounts in the Private or Check Ledger.

Investments, &c.—

Examine the actual certificates, deeds, &c., representing the bank's investments, and verify the amount on deposit at the Bank of England.

Check the valuations of the stocks and shares with a Stock Exchange Official List, or get them certified by a stockbroker.

Verify the existence of any assets which may have been written down to nothing in the books of the bank as a secret reserve.

Branches.—

In the case of a bank having country or foreign branches, see that the certified Branch Accounts are properly incorporated in the Head Office Books.

Where a bank has only London branches it is usual for the Auditor's clerks to visit each branch.

NOTES.

The CUSTOMERS' SECURITIES BOOK mentioned above contains, under the head of each customer to whom the bank has lent money, particulars of the stocks, shares, property, &c., on which the bank has a lien for the loan.

The value of such cover as stated in this book is frequently altered in accordance with the current market prices of the securities.

The BILL CALENDAR is a book with a page, or a few pages headed with each day of the year. Under each day appear particulars of the bills falling due on that day to be collected by the bank, so that whenever a bill is received it is entered in the Bill Calendar under its due date.

REBATE OF INTEREST ON BILLS DISCOUNTED.—When a bill is discounted for a customer the amount of the discount is credited by the bank to Discount Account on the same date, although the

discount is really earned over the whole period the bill has to run. Therefore, when making up the accounts, the part of the discount applicable to the next financial period is written back, Discount Account being debited and Rebate of Interest Account credited, which latter account stands as a liability on the Balance Sheet. The rate per cent. of this rebate depends on the discount rates prevailing in the Money Market at the particular time.

(For specimen of a Bank's Accounts see p. 41.)

PROGRAMME OF AUDIT OF A BUILDING SOCIETY.

GENERAL NOTES.

Building societies carry on business by receiving money by instalments or otherwise from shareholders and depositors at certain rates of interest, and lending it out to persons who mortgage their property to the society at higher rates of interest. The difference between the interest received and the interest paid goes first to cover the expenses of carrying on the society, and then, if the balance permits, to pay interest to the shareholders.

Shareholders are divided into several classes, according to the terms upon which they subscribe money. Shares may be paid for by instalments, which themselves bear interest. Each shareholder has a Pass Book which is written up when he pays in money, and shows the amount of his share in the society.

Shareholders preferred as to capital and income are known as Depositors, and receive a smaller rate of interest.

Depositors and shareholders can withdraw their holdings on giving certain notice to the society, and it therefore follows that it is not feasible for an auditor to check

exactly the amount of interest paid to shareholders, as the amount on which it accrues varies from day to day.

For the protection of shareholders, the Building Societies Acts lay down strict rules as to accounts, which have to be issued in a certain form and certified by two auditors, one of whom must carry on publicly the business of an accountant. The auditors' certificate also has to be in a certain form, and must state, among other things, that each of the auditors has at the particular audit actually inspected the mortgage deeds and other securities belonging to the society in respect of each property in mortgage to the society.

At the end of the accounts a schedule, consisting of three parts, has to be included, containing particulars of:—

(1) Mortgages over £5,000.

(2) Property over twelve months in possession of the society.

(3) Mortgages where repayments are upwards of twelve months in arrear, and the property has not been upwards of twelve months in the possession of the society.

The rest of the statements prescribed by law are:—

(1) Receipts and Payments Account.

(2) Statement showing the operations for the year.

(3) Liabilities and Assets Account.

A Profit and Loss Account is generally included, though this is not legally compulsory.

(For specimen of a Building Society's Accounts, see p. 43.)

AUDIT WORK.

Subscription Cash Book (containing Receipts from Depositors and Shareholders).—

Check additions and cross additions.

Check some postings to Share Ledgers.

Check totals into General Cash Book.

General Cash Book.—

Check all postings.

Agree with Pass Book and verify balance at bank.

Check additions.

Vouch credit side with receipts, cancelled Share and Deposit Certificates, Interest Book and Petty Cash Book.

Depositors' and Shareholders' Interest Book.—

Vouch with returned Interest Warrants.

Agree with Interest Pass Book.

See that total interest paid to depositors and to each class of shareholders is about right, having regard to the average amount of each class during the year.

Check additions.

Personal Ledgers (Shareholders', Depositors', Mortgagors').—

Check additions and balances, and see that total balances of each Ledger equal the balance of the Total Ledger Account in General Ledger.

Pass Books.—

Compare the balances of these with the Ledger balances.

Journal.—

Vouch entries and check postings and additions.

Properties on Hand.—

See that these are not overvalued, and vouch the receipt of income from them; also examine the title deeds or leases.

Mortgage Interest.—

Vouch the particulars as to rate of interest, amounts of repayments, &c., at the head of each new Mortgagor's Account opened during the year, with the mortgage deeds.

See that the correct amount of interest has been taken credit for by the society in respect of each mortgage.

Examine each account in the Mortgagors' Ledger to see whether it falls within the terms of Parts 1, 2, or 3 of the schedules required by the Building Societies Acts to be published with the accounts.

Mortgage Deeds.—

Inspect the deeds relating to every property on mortgage to the society, and see whether sufficient cover still exists on each loan.

See the certificates representing the secretary's and treasurer's security.

See that total amount of deposits is not over two-thirds of the total sum secured by mortgages to the society.

See that the mortgages are divided in the Balance Sheet, as prescribed by the Building Societies Acts, and that in all other respects the accounts are set out in conformity with the Acts.

PROGRAMME OF AUDIT OF A GAS COMPANY.

NOTES.

Gas Companies, in common with Railway Companies, Water Companies, Electric Light Companies, and other companies of a public nature, keep their accounts under the Double-Account System.

One feature of this system is that all expenditure on additional fixed assets is capitalised and stands on the books for ever, no depreciation being written off; while all renewals and replacements are charged to Revenue. The fixed assets, when once acquired, are thus supposed to be kept up, out of Revenue, in an efficient state of repair. It is therefore necessary, when dealing with the accounts of Gas Companies, to divide very carefully between Capital and Revenue the sums expended on fixed assets.

To Capital should only be charged the cost of entirely additional assets, while the sums expended in purchasing new assets, which are intended only to replace old ones, must be charged to Revenue.

AUDIT.

Read the company's special Act, if it has one, to see whether all provisions as to accounts have been complied with.

Collectors' Cash Book.—

Check additions.

Check totals into General Cash Book.

General Cash Book.—

Check additions.

Check all postings.

Agree with Pass Book, and verify balances at bank.

See that amounts are paid into bank regularly and promptly.

Vouch the credit side with Receipts, Wages Books, Petty Cash Books, &c. &c.

Rental Ledgers.—

Check additions.

See that arrears are correctly brought forward from one quarter to another.

Agree the totals of the Cash columns with the totals of the Collectors' Cash Book.

Agree the total of Arrears column at date of accounts with the balance of "Sundry Debtors for Gas Account" in General Ledger. The balance of this latter account is made up of debtors for the quarter just closed and arrears from previous quarters.

Inquire into the age of accounts in arrear, and ascertain whether the consumers have been cut off, or have left; and see that irrecoverable arrears are written off.

Sale of Fittings Day Book—Sale of Residuals Day Book.—

Check additions of these books, and postings of totals to debit of Sundry Debtors' Accounts and credit of Sales in General Ledger.

Sale of Fittings Ledger—Sale of Residuals Ledger.—

Check some of the postings from the Collectors' Cash Book into these Ledgers.

Check additions, and balances on to schedules.

See that totals of balances in each case agree with the balance of the Total Ledger Accounts in the General Ledger.

Expenditure Journal.—

Vouch this book with the invoices, seeing that the analysis of each invoice is duly certified by the engineer,

and split up between the various Capital and Revenue Accounts in the Invoice Book, as per engineer's analysis.

Check the postings of the Expenditure Journal to the credit of the Bought Ledger.

Check additions.

Check postings of totals of the Analysis columns to the debit of the various impersonal accounts in the General Ledger.

Bought Ledger.—

Check additions and balances, seeing that the total of the latter agrees with the Bought Ledger Account in the General Ledger.

Wages Book.—

Check the postings of the analysis of wages to the debit of the various impersonal accounts, and see that the analysis is duly certified.

Stocks of Coal, Coke, Tar, Fittings, &c., on Hand.—

See that the amounts of these are certified by the manager.

Depreciation.—

See that sufficient depreciation is being allowed for meters and stoves in use.

Accounts.—

Check the balances of the General Ledger on to the—

Capital Account,
Revenue Account,
Profit and Loss Account, and
General Balance Sheet.

(For specimen of a Gas Company's Accounts see p. 49.)

PROGRAMME OF AUDIT FOR A LIFE INSURANCE COMPANY.

The auditor of an insurance company is in much the same position as the auditor of a bank with regard to relying to a great extent on the system of internal check in force; and, before settling the details of his audit work he should get a thorough idea of the arrangements of the company as to keeping accounts, and receiving and paying cash. Under any circumstances part of his work would consist of—

Seeing returned policies with the receipt endorsed thereon for all claims.

Examining vouchers for every payment.

Verifying the company's investments, the evidence of these consisting of title deeds, bonds, share certificates, scrip, mortgage deeds, company's own policies (on which money has been lent).

Checking the valuation of such investments as are in Stock Exchange securities with the Stock Exchange Official List.

Seeing that interest and dividends on each investment had been received when due; and that, in the case of properties, rents had been received when due, as shown by the rent roll.

Verifying inscribed stocks by writing to the bank where inscribed, and verifying bank balances in the same way.

Examining the Renewal Register containing particulars of old policies, on which the premiums have been debited to the various assured, and examining the "New Policies Book" or "Policies Issued Book" for details of new

policies on which the first premiums are due during the year. The cash received will come against these debits, and where no cash has been received on a policy the surrendered policy should be seen, or an explanation required.

Checking the balances of the various Personal Ledgers on to schedules, and seeing that the totals of these schedules agree with the balances of the respective total Ledger Accounts in the General Ledger. The postings of these Total Ledger Accounts will be checked from the totals of the various Analysis columns in the Cash Books and Renewal Sheets.

(For specimen of a Life Insurance Company's Accounts see p. 60.)

PROGRAMME OF AUDIT OF A CHARITY.

The accounts of charities usually consist of an Income and Expenditure, or a Receipts and Payments Account, sometimes accompanied by a Balance Sheet. The following particulars will serve as a guide to the usual duties an auditor will have to perform:—

Vouch the receipts' side of the Cash Book with the counterfoils of receipts given for subscriptions, donations, collections, &c., seeing that the counterfoils are consecutively numbered; these numbers should be printed in the book, and not left to be written in.

Vouch the payments' side with receipts, noticing that payments are such as would be expected, according to the nature of the charity.

Agree with Bank Pass Book, and verify balance at bank.

Verify also any amount on deposit.

Check the postings of the Cash Book to the Ledger; the debit side of the Cash Book will probably contain Analysis columns for the various classes of receipts (viz., Subscriptions, Donations, Donations for special purposes, Collections, &c. &c.), and the totals of these columns posted to the Ledger.

Verify the existence of any investments or other assets. See that income on such investments has been received when due.

If the charity is administered by a board or a committee, read the minutes of the meetings and note any resolutions affecting the accounts.

Check additions of Cash Book and Ledger, and check balances of these books on to the accounts. Check also the subscriptions, donations, collections, &c., received on to lists to be printed with the accounts, and agree the totals of such lists with the corresponding items in the accounts.

PROGRAMME OF AUDIT OF EXECUTORSHIP ACCOUNTS.

Probate Affidavit.—

Examine this to see at what amount the will was sworn.

Copies of the schedules forwarded to the Inland Revenue Authorities give particulars of the various assets and liabilities, and from these particulars vouch the opening entries in the Journal.

Will.—

Read this to see the testator's directions with regard to his estate, and see that the accounts show that these directions have been observed.

Cash Book.—

Vouch the debit side with counterfoils of Dividend Warrants, and, in the case of receipts from rents, &c., with the counterfoils of the receipts given by the executors, or with the agents' accounts; also with brokers' Sold Notes for receipts on sales of investments.

Vouch the credit side with ordinary receipts for expenses paid, with brokers Bought Notes for purchase of investments. Also see vouchers for all legacies, annuities, interest, &c., paid out.

See that the correct amounts of estate duty and other death duties have been paid, and that all annuities, legacies, &c., provided for by the will have been duly paid.

Check carefully the apportionment of cash received as between Corpus and Income, according to the nature of the receipt or the period covered by it, and also see that the cash paid has been properly so split up.

Agree the Cash Book with the Pass Book, and verify the balance at the bankers.

Check additions of the Cash Book and the postings to the Ledger or Ledgers.

Journal.—

Vouch the opening entries with schedules attached to probate affidavit. See that all entries are correctly made, and give full particulars of their nature, and, at the end of the year, see that the various accounts affecting income are properly closed off to Income Account.

Check the postings to the Ledger.

Ledger.—

Where estates are large, separate Rent and Investment Ledgers may be kept, and the auditor must examine these at the end of each year to see that the proper rent on each property, or the right amount of dividend or interest on each investment, has been received and accounted for. If agents are employed to collect the rents, their accounts should be examined and inquiries made as to any large amounts spent on repairs, or as to properties not producing any income.

Verification of Assets.—

Verify bank balances on Current or Deposit Account by writing to the bankers.

In the case of Freeholds, see the title deeds; in the case of Leaseholds, the leases.

See the bonds, scrip, certificates, &c., representing all investments.

AUDIT OF A GOLD MINE ABROAD WITH HEAD OFFICE IN LONDON.

The returns from the mine manager in some cases are audited locally, and the auditor in London would, in respect of such returns, confine himself to seeing that they were properly incorporated in the London books, stating in his report that he had taken as correct the audited returns from abroad.

If no local audit takes place, the mine manager would generally remit to the Head Office a copy of his cash receipts and payments, accompanied by vouchers; also

a copy of his Journal entries, with vouchers to substantiate them. At the end of the year he would send a duly certified list of stocks of plant, tools, stores, &c., on hand, certified details of capital expenditure, and particulars of debtors and creditors, and a Trial Balance of his books. All these returns will have to be inspected and vouched by the auditor, who will see that they are correctly brought into the London books. The bank abroad into which the extracted gold is paid will give certificates of the weight and value of such gold for which it has given the mine credit, and such certificate will be forwarded to London, together with certificate of balance at bank on date of closing the mine's books.

The transactions in London to be audited would consist, among others, of the following:—

Transfer Fees and Interest and Dividends on Investments.—The receipt of these to be vouched.

London Office Rent and Expenses, Directors' Fees, Secretary's Salary, &c.—Vouchers to be seen for these.

Remittances from Abroad.—Amounts remitted, as per foreign returns, to be agreed with amounts received as per London books.

Payment of Dividends.—To be vouched.

Minute Book.—To be read.

Exchange.—If the rate of exchange is one which is subject to fluctuations, the question of its treatment in the books to be gone into.

Financial Transactions, such as sales and purchases of investments, lending of money on Stock Exchange from Account to Account, to be vouched by production of Brokers' Accounts, Bought and Sold Notes, &c.

Investments and Bank Balances.—Existence of these to be verified, and valuation of the former for Balance Sheet purposes to be checked.

(For specimen of the Accounts of a Gold Mine see p. 67.)

NOTES ON OTHER AUDITS.

The following notes will give an idea of the particular points to which an auditor's attention would be directed in respect of the undermentioned concerns:—

TRUST COMPANY.

Look to memorandum and articles of association as to the scope and range of investments allowed.

See to correct apportionment of interest in case of stocks bought and sold "cum div." or "ex div."

Inspect minutes as to financial dealings.

See that proper income has been received from each investment when due.

See to valuation of investments for purposes of Balance Sheet.

Verify existence of all investments.

(For specimen of a Trust Company's Accounts see p. 69.)

BRICK COMPANY.

Inspect leases and agreements with reference to royalties payable, and see that royalties paid are in accordance with such agreements.

See that correct method is employed in estimating expenses of making bricks for purposes of valuing stock of bricks and partly manufactured bricks on hand.

See that rents receivable in respect of cottages, fields &c., duly come to hand.

Among the chief expenses in the Trading Account will be Rents, Rates, Royalties, Water, Carriage, Wages, Repairs.

HOSPITAL.

Much the same considerations with regard to income apply as in the case of other ordinary charities. On the other hand, the payments will be more varied in nature, and, instead of one Cash Account, there may be several, kept by different officers of the institution—*e.g.*, the matron and the treasurer.

Hospitals who participate in the Saturday or Sunday Hospital Funds are required to render accounts in a certain form, and the auditor will in this case see that such requirements have been complied with.

(For specimen of the Accounts of a Hospital see p. 57.)

COLLIERY.

Inspect leases and agreements as to royalties paid and received.

See that income from property, such as workmen's cottages, has been duly received or deducted from wages.

See as far as possible that only cost of development of the mine is charged to capital.

The expenses would include—

Upkeep of Plant, Machinery, and Trucks.
Wages.
Timber and other materials used in the Mine.
Carriage.
Rents, Royalties, Rates, and Taxes.
Horsekeep.

CLUB.

That part of revenue arising from subscriptions will be checked as in the audit of a charity, except that no list of subscribers will appear with the accounts, although such a list will probably be found in the club, which the auditor might examine to see that all subscriptions have been accounted for.

It should be seen that a good system of taking table receipts is in force. This also applies to the keeping of the Cellar Accounts, which should involve the recording by the storekeeper of all bottles coming in and out of the cellar.

BREWERY.

Part of the auditor's duty will be—

To see that only actual additions and improvements to buildings and plant are capitalised.

To see that sufficient depreciation is written off leases, buildings, plant, machinery, casks, horses, vans, &c.

To look into systems of collection of accounts by draymen. Also the booking out of barrels of beer leaving the brewery, and the keeping of the various Stores Accounts.

To see that all rents receivable, interest on loans to publicans, and other income from investments have been duly accounted for.

To look carefully into the book debts, and to see that ample provision is made for possible loss.

(For specimen of the Accounts of a Brewery see p. 63.)

CHAPTER IV.

SPECIMENS OF ACCOUNTS OF VARIOUS CONCERNS.

BANK.

Dr. LIABILITIES AND ASSETS, 30TH JUNE 1906. *Cr.*

Dr.			£	s	d
To Capital paid up, viz., 120,000 Shares at £15 per Share			1,800,000	0	0
,, Amount of the Guarantee Fund			1,145,000	0	0
,, Amount due by the Bank on Current Accounts, Deposit Receipts, Circular Notes, &c.			18,002,742	6	0
,, Acceptances			1,059,924	0	9
,, Rebate of Interest on Bills Discounted, not yet due, carried to New Account			20,665	12	7
,, Amount of Net Profit for the Half-year ended 30th June, including £21,900 16s. 11d. balance of Profit and Loss Account, 31st December 1905		£136,749 4 1			
Less reduction of Premises Account ..	£5,000 0 0				
Amount transferred to Superannuation Allowance Fund	5,000 0 0				
Amount transferred to Guarantee Fund Account ..	5,000 0 0				
		15,000 0 0			
			121,749	4	1
			£22,150,081	3	5

Cr.	£	s	d
By Government Stock, viz., £1,500,000 Consols, taken at 85	1,275,000	0	0
,, Other British Government Securities	1,236,141	17	6
,, Indian, Colonial Government, and other Securities	1,053,288	7	8
,, Securities lodged with Public Bodies	16,987	10	0
,, Cash in hand and at the Bank of England	2,675,223	6	3
,, Money at Call and Short Notice	5,101,079	0	0
,, Bills Discounted, Loans and other Securities ..	9,288,318	2	2
,, Liabilities of Customers for Acceptances as per contra	1,059,924	0	9
,, Freehold and Leasehold Premises	444,118	19	1
	£22,150,081	3	5

Dr. PROFIT AND LOSS ACCOUNT FOR THE HALF-YEAR ENDED 30TH JUNE 1906. **Cr.**

		£ s d
To Current Expenses, Directors' Remuneration, and Superannuation Allowances..		114,941 15 11
" Rebate of Interest on Bills Discounted, not yet due, carried to New Account		20,665 12 7
" Reduction of Premises Account		5,000 0 0
" Superannuation Allowance Fund		5,000 0 0
" Guarantee Fund Account		5,000 0 0
" Dividend Account for the payment of Half-a-year's Dividend at c rate of 11 per centum per annum on £1,800,000, amount of paid-up Capital on 120,000 Shares	£99,000 0 0	
" Amount carried to Profit and Loss New Account	22,749 4 1	
		121,749 4 1
		£272,356 12 7

	£ s d
By Amount of Gross Profit for the Half-year ended 30th June, including £21,900 16s. 11d. balance of Profit and Loss Account, 31st December 1905, after making provision for reduction of Premises Account, for Bad and Doubtful Debts and payment of Income Tax	272,356 12 7
	£272,356 12 7

BUILDING SOCIETY.

RECEIPTS AND PAYMENTS ACCOUNT.

Dr.

	£	s	d	£	s	d
To Balance brought from last Account.. ..				403	0	6
„ Paid-up Shares A	125	0	0			
„ Do. F	1,200	0	0			
„ Subscription Shares A	12	16	4			
„ Do. B	27	13	2			
„ Do. C	6	8	0			
„ Do. D	18	3	4			
„ Do. E	23	8	0			
„ Do. F	1,053	11	2			
„ Depositors..	2,490	19	9			
„ Mortgagors' Repayments and Rents ..	5,340	13	1			
„ Repayments on Advances on Shares ..	113	11	3			
„ Entrance Fees	3	9	0			
„ Rules and Pass Books	1	4	0			
„ Fees, Fines, and Transfers	54	6	3			
„ Interest	24	19	10			
„ Interest on Loans	1	12	0			
„ Survey Fees	17	12	6			
				10,515	7	8
				£10,918	8	2

Cr.

	£	s	d	£	s	d	£	s	d
By Advances on Mortgage, Ground Rents, &c.				5,119	1	9			
„ Paid-up Shares A withdrawn				175	0	0			
„ Do. B do.				175	0	0			
„ Do. C do.				150	0	0			
„ Do. D do.				725	0	0			
„ Do. E do.				100	0	0			
„ Do. F do.				500	0	0			
„ Subscription Shares A withdrawn, including Transfers to paid-up Account ..				125	7	0			
„ Do. B do.				33	5	0			
„ Do. C do.				15	7	0			
„ Do. D do.				3	8	9			
„ Do. E do.				46	13	3			
„ Do. F do.				782	13	0			
„ Interest paid to Shareholders & Depositors				975	1	0			
„ Depositors—Principal withdrawn.. ..				1,510	1	5			
„ Survey Fees				17	12	6			
„ Pass Books				1	2	6			
„ Management Expenses for Year, viz.:—									
Printing and Books	£12	12	6						
Advertising and Prospectuses	3	17	10						
Income Tax	43	10	0						
Postages, Stationery, Travelling Expenses, B. S. Association and Petty Cash.. ..	25	6	10						
Rent of Office	10	0	0						
Directors' Fees, Board and Subscription Meetings ..	84	0	0						
Fees to Committees and Settling Mortgages	19	8	6						
Auditors	25	4	0						
Salaries	180	0	0						
Commission	24	6	0						
				428	5	8			
							10,882	18	10
„ Balance June 30th 1893:—									
National Bank, Current Account ..				32	13	1			
Do. in Hand				2	16	3			
							35	9	4
							£10,918	8	2

Supplementary information for Members, but not forming part of the Accounts prescribed by the Registrar.

PROFIT AND LOSS ACCOUNT FOR THE 25TH YEAR.

Dr.	£	s	d	*Cr.*	£	s	d
To Management Expenses, as per Cash Account	428	5	8	By Interest Account	1,718	6	11
„ Interest to Depositors, &c.	234	11	6	„ Fees, Fines, Pass Books and Transfers	61	0	3
„ Balance for the year—carried to Net Profit Account ..	1,116	10	0				
	£1,779	7	2		£1,779	7	2

NET PROFIT ACCOUNT.

Dr.		£	s	d	£	s	d	*Cr.*	£	s	d
To Dividend to Shareholders (Paid-up and Subscription)	A	154	4	0				By Balance brought down from 25th year	1,116	10	0
	B	119	1	7				„ Balance from last year	270	15	0
	C	109	18	4							
	D	162	6	7							
	E	105	11	1							
	F	281	7	0							
					932	8	7				
„ Balance carried forward to next Account					454	16	5				
					£1,387	5	0		£1,387	5	0

2.—STATEMENT SHOWING THE OPERATIONS FOR THE YEAR.

Balances at beginning of Year as shown by last Annual Statement	£ s d	Additions during the Year: Particulars	Amount £ s d	Diminutions during the Year: Particulars	Amount £ s d	Balances at end of Year as shown by Liabilities and Assets Account	£ s d
Due to Shareholders	23,886 3 9	Subscriptions of Shareholders ..	2,467 0 0	Withdrawals of Shareholders ..	2,831 14 0	Due to Shareholders ..	23,595 14 11
Due to Depositors and other Creditors ..	6,799 8 2	Interest added ..	932 8 7	Interest paid ..	858 3 5	Due to Depositors & other Creditors ..	7,894 7 5
Undivided Profit, not including Prospective Interest ..	1,491 7 0	New Deposits ..	2,490 19 9	Deposits withdrawn	1,510 1 5	Undivided Profit, not including Prospective Interest ..	1,640 8 5
		Interest added ..	234 11 6	Interest paid ..	116 17 7		
		Fines and Fees ..	61 0 3	Do. transferred	3 13 0		
		Interest	1,718 6 11	Management Expenses	428 5 8		
				Written off Property in Possession ..	35 0 0		
				Interest	1,167 0 1		
	£32,176 18 11		£7,904 7 0		£6,950 15 2		£33,130 10 9
	Total .. £40,081 5s. 11d.				Total .. £40,081 5s. 11d.		

	£ s d		£ s d		£ s d		£ s d
Due on Mortgage Securities, not including Prospective Interest	31,554 6 4	Advanced on Mortgage	5,085 17 1	Repayment of Advances .. .. / Interest received from Borrowers	5,166 6 8	Due on Mortgage Securities, not including Prospective Interest	32,984 8 1
Other Assets	219 12 1	Do. Ground Rent, &c.	213 18 3	Do. transferred ..	3 13 0	Balance at Bankers and on hand and other Assets ..	146 2 8
Balance at Bankers ..	403 0 6	Interest due from Borrowers and Properties ..	1,690 6 1	Income from Properties in Possession..	355 0 0		
		Investments made, viz.:— Interest on Investments, Fees, &c. ..	61 14 9	Written off do. ..	35 0 0		
				Investments realised viz.:— Interest, &c., received ..	170 13 6		
				Balance Cash received from Bankers ..	367 11 2		
	£32,176 18 11		£7,051 16 2		£6,098 4 4		£33,130 10 9
	Total .. £39,228 15s. 1d.				Total .. £39,228 15s. 1d.		

3.—LIABILITIES AND ASSETS ACCOUNT.

Dr.

	Principal £ s d	£ s d
To Liabilities to Holders of Shares, viz. :—		
Subscriptions	2,270 14 11	
Paid-up Shares	21,325 0 0	
		23,595 14 11
" Liabilities to Depositors and other Creditors, viz. :—		
For Deposits payable at a fixed period ending within the next 12 months..	7,870 8 2	
Borrower's Account over-paid ..	23 19 3	
		7,894 7 5
" Undivided Profit (including Reserve Funds, but not including Prospective Interest) :—		
Reserve Account	1,000 0 0	
Suspense Account, surplus on Properties sold	185 12 0	
Balance Profit and Loss Account ..	454 16 5	
		1,640 8 5
		£33,130 10 9

Cr.

		Principal £ s d
By Balance due or outstanding on Mortgage Securities (not including Prospective Interest), viz. :—		
Mortgages from Members where the repayments are not upwards of 12 months in arrear, and the property has not been upwards of 12 months in possession of the Society :—		
On 90 Mortgages where the debt does not exceed £500		18,700 10 1
On 10 Mortgages where the debt exceeds £500 and does not exceed £1,000		6,580 17 4
On 2 Mortgages where the debt exceeds £1,000 and does not exceed £2,000 ..		2,700 0 0
Total 102 of Mortgages available under s. 14 of the Act of 1894		27,981 7 5
On 5 Mortgages on Property of which the Society has been upwards of 12 months in possession, as shown by Part II. of the Schedule..		3,998 3 4
On 3 Mortgages where the repayments are upwards of 12 months in arrear, and the property has not been upwards of 12 months in possession of the Society, as shown by Part III. of the Schedule		1,004 17 4
Total 110 of Properties Mortgaged to the Society		32,984 8 1
By other Assets :—		
Fees due from Members	£12 6 0	
Rules and Pass Books on hand	1 7 6	
Birkbeck Bank	64 6 10	
Office Furniture	32 13 0	
Cash at Bankers	35 9 4	
		146 2 8
		£33,130 10 9

SCHEDULE.

PART I.

Particulars to be set forth in the case of every Mortgage where the Repayments are not upwards of Twelve Months in Arrears, and the Property has not been upwards of Twelve Months in the possession of the Society, and where the present debt exceeds £5,000.

NIL.

PART II.

Particulars to be set forth in the case of Property of which the Society has been upwards of Twelve Months in possession.

Roll Number	Date of Advance	Date when Possession was taken	Whether subject to any prior Mortgage or charge; if so, what amount	Whether Freehold, Copyhold, or Leasehold	Amount of Advance	Original Valuation of Property	Debt when Possession was taken	Present Amount included in Assets	Gross Income for the Year	Outgoings for the Year	Observations
					£	£	£ s d	£ s d	£ s d	£ s d	
41	Sept. 1882 ..	July 1883 ..	No.	L.	1,200	1,400	919 10 0	669 19 4	142 11 0	97 5 3	Part Sold
139	Mar. 1888 ..	July 1888 ..	No.	L.	500	580	497 7 0	408 3 3	43 9 0	21 19 0	
83	Mar. 1885 ..	July 1892 ..	No.	F.	450	500	412 2 0	279 6 8	39 0 0	17 10 5	
177	Dec. 1889 ..	Nov. 1891 ..	No.	L.	1,700 } 400 }	2,200	2,151 2 2	1,855 13 9	130 0 0	43 18 11	
315	April 1899 ..	Aug. 1901 ..	No.	L.	850	1,300	761 13 5	785 0 4	..	33 4 8	
			Total ..	£	5,100	5,980	4,741 14 7	3,998 3 4	355 0 0	213 18 3	

PART III.

Particulars to be set forth in the case of every Mortgage when the Repayments are upwards of Twelve Months in arrear, and the Property has not been upwards of Twelve Months in possession of the Society.

Date of Advance	Whether subject to any prior Mortgage or Charge; if so, what amount	Whether Freehold, Copyhold, or Leasehold	Number of Months in Arrear	Original Valuation of Property	Amount of Advance	Present Debt	Amount of Payment in Arrear	Observations
				£	£	£ s d	£ s d	
Sept. 1897 ..	No.	Leasehold	20	530	475	375 10 1	90 11 5	Allowed to stand at Interest
April 1900 ..	No.	Do. ..	16	547	300	298 2 9	37 10 3	
June 1896 ..	No.	Do. ..	16	530	500	331 4 6	82 17 6	Allowed to stand at Interest
			Total .. £	1,607	1,275	1,004 17 4	210 19 2	

GAS COMPANY.

Dr. **CAPITAL ACCOUNT.—Money Raised and Expended.** *Cr.*

		£ s d	£ s d
Amount brought forward from last A/c..		..	887,206 13 8
EXPENDED DURING HALF-YEAR—			
Stamp duty on New Capital		43 15 0	
New buildings, plant, machines, storages, and other works connected with manufacture		14,800 15 10	
New and additional mains and service pipes, including labour, &c.		12,657 8 0	
New and additional meters, including fixing:—Ordinary ..	£759 9 11		
Prepayment ..	6,683 16 5		
		7,443 6 4	
New Gas Stoves (Ordinary), inclusive		2,167 6 0	
Automatic fittings (including Stoves)..		16,426 5 11	
		53,538 17 1	
Depreciation Account:—			
Ordinary Meters, Stoves, Lamps, &c.	3,876 6 9		
Automatic Fittings, Meters and Stoves	8,062 18 0		
Sundry Renewals, &c. ..	1,508 0 0		
		13,447 4 9	
			40,091 12 4
Total expenditure to date			927,298 6 0
By Balance, carried to General Balance Sheet ..			37,863 16 2
Nominal Amount added on Conversion			307,392 0 0
Total £			1,272,554 2 2

	Certified Receipts to date of last Account	Received since	Total Receipts to present date
	£ s d	£ s d	£ s d
Ordinary Stock ..	438,480 0 0	34,003 0 0	472,483 0 0
Preference Stock ..	185,000 0 0	..	185,000 0 0
Premiums on Ordy. and Pref. Stock	69,991 4 8	1,764 17 6	71,756 2 2
Debenture Stock ..	193,300 0 0	32,750 0 0	226,050 0 0
Premiums on ditto..	9,252 1 11	620 18 1	9,873 0 0
	£896,023 6 7	69,138 15 7	965,162 2 2
Nominal Amount of Consolidated Ordinary Stock added on Conversion			307,392 0 0
		Total £	1,272,554 2 2

Dr. REVENUE

June, Half-year 1905 £		£	s	d	£	s	d
	To Manufacture of Gas—						
29,564	Coals carbonized, including Coke and Breeze for Water Gas (see contra)	32,112	9	1			
7,908	Oil for ditto	9,721	10	9			
2,147	Purifying materials, including £951 5s. 5d. for labour	1,643	9	8			
1,369	Salaries of Officers at works	1,469	6	8			
8,155	Wages, &c. (carbonizing)	8,418	1	11			
13,078	Repairs and maintenance of works and plant (including renewal of retorts), machines, apparatus, tools, materials, and labour (less £307 8s. 5d. received for old metal)	14,657	4	0			
62,221					68,022	2	1
	To Distribution of Gas—						
1,114	Salaries and Wages of Officers (including Rental Clerks, &c.)	1,724	19	6			
2,216	Repair, maintenance, and renewal of mains and of service-pipes, including materials, laying and paving, and labour	2,552	8	2			
11,209	Repairing, renewing, refixing, &c., Meters, Stoves, Lamps, Fittings (Ord. and Aut.) and Incand. Maint.	14,179	8	2			
					18,456	15	10
	To Public Lamps—						
1,812	Lighting and repairing				1,614	6	6
5,616	To Rates, Taxes, &c.				6,128	12	4
89	To Testing Station				90	19	3
	To Management—						
1,000	Directors' allowances..	1,000	0	0			
798	Salaries of Secretary and Accountant's office ..	815	18	0			
995	Collectors, Ordinary £909 14 0						
531	,, Slot 752 9 8						
		1,662	3	8			
766	Stationery, Printing, Postage, and Advertising	1,126	18	0			
179	General Charges	170	5	0			
79	Auditors	102	10	0			
					4,877	14	8
408	To Pensions..				471	7	9
86	To Law Expenses				548	18	6
143	To Insurance (Fire and other)..				166	1	10
684	To Bad Debts (Gas and Sundries)				756	15	5
89,946					101,133	14	2
29,780	To Balance, carried to Net Revenue Account ..				30,857	9	7
119,726					£131,991	3	9

ACCOUNT. *Cr.*

	£ s d	£ s d	£ s d	June, Half-Year 1905 £
By Sale of Gas—				
Per (Ordinary) Meter, at 2s. 10d. per 1,000 ..		71,751 7 10		71,018
Ditto (Prepayment)		21,592 3 8		13,749
Public Lighting and under Contracts		9,589 13 2		9,939
			102,933 4 8	
Rental of Meters—Ordinary		2,474 14 5		2,375
" " Prepayment		1,956 5 8		1,201
" Stoves—Ordinary		2,194 8 6		2,024
" Prepayment Stoves and Fittings ..		4,693 19 7		2,835
			11,319 8 2	
			114,252 12 10	
By Transfer Fees			11 17 6	22
By Residual Products—Saleable:				
Coke Sold		7,634 9 7		
Coke used for Water Gas		4,331 7 2		
		11,965 16 9		
Less Labour		1,253 12 8		
		10,712 4 1		9,840
Breeze—Sold	52 6 5			
Used in manufacture of Water Gas	320 12 6	372 18 11		348
Tar		2,735 10 3		2,705
Sulphate of Ammonia		3,906 0 2		3,670
			17,726 13 5	
			£131,991 3 9	119,726

HALF-YEAR ENDING

June Half-Year 1905 £	*Dr.* NET REVENUE	£	s	d
3,866	To Interest on Debenture Stock at 4% per annum	3,891	13	7
170	„ „ on Customers' Deposits	160	3	8
	„ Interest	206	7	11
34,453	„ Balance available for Dividend, carried to General Balance Sheet	40,275	9	3
38,489		£44,533	14	5

June, Half-Year 1905 £	*Dr.* GENERAL	£	s	d
	To CAPITAL—			
47,331	Balance at credit thereof	37,863	16	2
	„ NET REVENUE—			
34,453	Balance at credit thereof	40,275	9	3
	„ RESERVE FUND—			
12,487	Balance at credit thereof	12,848	5	3
	„ INSURANCE FUND—			
17,693	Balance at credit thereof	18,231	17	5
23,191	„ Leases Redeemed	23,190	19	3
147	„ Unpaid Dividends	284	17	8
9,546	„ Deposits by Consumers	9,713	0	9
3,866	„ Holders of Debenture Stock, for Interest	3,891	13	7
31,938	„ Sundry Tradesmen and others, for sums due to them for Works and Plant, Coals, Stores, &c. &c.	23,492	18	4
180,652		£169,792	17	8

30TH JUNE 1906.

ACCOUNT. *Cr.*

	£ s d	£ s d	June Half-Year 1905 £
By Balance from last Account	37,414 4 2		31,574
Less Dividends for Half-Year to 31st Dec. 1905 :— On £745,872 Consol Ord. Stock, at £5 2s. 6d. % per ann. .. £19,112 19 4; On £185,000, 5% Preference Stock (at 5% per ann.).. .. .. 4,625 0 0	23,737 19 4	13,676 4 10	23,272 / 8,302
By Interest			407
„ Balance from Revenue Account		30,857 9 7	29,780
		£44,533 14 5	38,489

BALANCE SHEET. *Cr.*

	£ s d	£ s d	June, Half-Year 1905 £
By Cash at Banks and in Hand	2,023 18 4		9,202
„ „ on Deposit	47,000 0 0		50,000
		49,023 18 4	
„ RESERVE FUND— Amount Invested in India Stock, at cost ..		12,848 5 3	12,487
„ INSURANCE FUND— Amount Invested in India Stock, at cost ..		18,231 17 5	17,693
„ Freehold Land Account		23,190 19 3	23,191
„ Stores on hand, viz.—			
Coals, Oil, &c.	10,770 17 8		
Coke and Breeze	69 7 6		
Tar, Sulphate, &c.	2,169 16 9		
Lamps, Fittings, and Sundry Stores	4,003 18 9		
		17,014 0 8	18,785
„ Amounts due to the Company, viz.—			
Gas, Meter, &c., Rental	39,972 6 9		
Coke and other Residuals..	751 6 3		
Sundry Accounts	8,760 3 9		
		49,483 16 9	49,294
		£169,792 17 8	180,652

RAILWAY.

RECEIPTS AND EXPENDITURE

	Amount Expended to 31st Jan. 1906			Amount Expended during Half-Year ending 31st July 1906			Total		
	£	s	d	£	s	d	£	s	d
To Expenditure:—									
I. Lines and Works open for Traffic ..	58,542,976	15	9	199,634	14	10	58,742,611	10	7
II. Lines and Works in course of Construction or to be Constructed, less transferred to No. I.	101,221	14	11	52,970	16	11	154,192	11	10
III. Working Stock (No. 5)	7,541,491	16	2	114,986	0	10	7,656,477	17	0
IV. Subscriptions to other Railways ..	663,500	12	5	4,489	14	9	667,990	7	2
V. Steam Vessels	65,695	13	5	386	2	4	66,081	15	9
VI. Special	..			292,568	0	0	292,568	0	0
£	66,914,886	12	8	665,035	9	8	67,579,922	2	4

Dr. REVENUE ACCOUNT, FOR HALF-

Half Year ending 31st July 1905 £		d	Expenditure	Amount £	s	d	Per cent. on Traffic Receipts	Per Train Mile d
211,714	9·43	5·70	To Maintenance of Way, Works, and Stations	227,154	11	5	9·82	5·95
332,301	14·80	8·94	„ Locomotive Power	350,290	17	0	15·15	9·18
113,557	5·06	3·06	„ Carriage and Wagon Repairs	121,743	19	11	5·26	3·19
390,604	17·39	10·51	„ Traffic Expenses	409,322	10	9	17·70	10·72
39,211	1·75	1·05	„ General Charges	40,464	3	1	1·75	1·06
2,510	0·11	0·07	„ Law Charges	2,021	2	0	0·09	0·05
6,549	0·29	0·18	„ Compensation (Accidents and Losses):— Personal Injury £4,227 12 8; Damage to and Loss of Goods 4,676 6 10	8,903	19	6	0·39	0·23
3,006	0·13	0·08	„ Glasgow Incline	3,120	7	3	0·14	0·08
21,656	0·96	0·58	„ Forth and Tay Ferries, and Loch-Lomond and Clyde Steamers	23,438	9	0	1·01	0·62
1,121,108	49·92	30·17		1,186,459	19	11	51·31	31·08
2,068	0·09	0·05	*Less* Remuneration for Working other Lines ..	3,343	16	2	0·15	0·09
1,119,040	49·83	30·12	Total Working Expenses	1,183,116	3	9	51·16	30·99
8,906	0·40	0·24	„ Parliamentary Expenses ..	2,132	12	11	0·09	0·06
56,587	2·52	1·52	„ Rates and Taxes	56,653	16	1	2·45	1·37
4,676	0·20	0·13	„ Government Duty	4,582	17	8	0·20	0·12
1,121	..	..	„ Union Canal Expenses ..	1,043	0	5	..	..
1,190,330				1,247,528	10	10		
1,107,004	..	..	Balance carried to Net Revenue Account	1,113,122	13	11		
2,297,334		£	£	2,360,651	4	9		

ON CAPITAL ACCOUNT.

	Amount Received to 31st Jan. 1906	Amount Received during Half-Year ending 31st July 1906	Total
	£ s d	£ s d	£ s d
By Receipts :—			
Shares and Stock, per Account ..	47,305,347 5 0	*292,561 0 0	47,597,908 5 0
*Increase on conversion of Convertible Preference into Ordinary and Ordinary Preference £292,581 0 0			
Less Northumberland Central Preference Stock exchanged for Ordinary 20 0 0			
Debenture Stock..	15,617,325 13 1	..	15,617,325 13 1
Loans, per Account	1,016,680 14 4	*Dr.* 48,263 3 9	968,417 10 7
Premium on Stock	1,636,233 6 7	..	1,636,233 6 7
	65,575,586 19 0	244,297 16 3	65,819,884 15 3
Balance	..	..	1,760,037 7 1
		£	67,579,922 2 4

YEAR ENDING 31ST JULY 1906. *Cr.*

Half-Year ending 31st July 1905 £	d	Receipts.		Amount £ s d	Per Train Mile d
		By Passenger Traffic :—	Number		
68,413		First Class	819,593	66,035 19 5	
601,121		Third „	19,268,702	605,687 13 1	
669,534		Total	20,088,295	671,723 12 6	
65,051		Season Tickets	Number 23,894	63,833 7 11	
734,585				735,557 0 5	
144,319		„ Parcels, Horses, Carriages, &c.		141,298 16 11	
17,152		„ Mails..		17,151 10 0	
896,056	45·13	„ Merchandise Traffic :—	£ s d	894,007 7 4	44·09
		Goods (2,571,471 Tons)..	726,296 15 9		
		Less—Cartage .. £ 71,670 14 2			
		Customs .. 885 13 9			
		Pier and Shore Dues.. .. 875 2 10			
		Sack Charges.. 2,186 6 3	75,617 17 0		
624,340			650,678 18 9		
38,885		„ Live Stock Traffic	39,203 0 4		
686,210		„ Mineral Traffic (10,942,766 Tons)..	728,700 0 6		
1,349,435	78·58			1,418,581 19 7	79·88
2,245,491	60·65	Total Traffic Receipts		2,312,589 6 11	60·80
		„ Miscellaneous Receipts :—	£ s d		
1,039		Union Canal	1,195 13 5		
43,373		Rents of Property	42,096 9 3		
671		Transfer Fees	606 12 6		
6,760		Mileage of Carriages and Wagons ..	4,163 2 8	48,061 17 10	
51,843					
2,297,334			£	2,360,651 4 9	

NET REVENUE ACCOUNT.

Dr.

Half-Year ending 31st July 1905 £	Half-Year ending 31st July 1905 £		£ s d	£ s d
17,637		To Interest on Mortgage and Debenture Loans, including Stamps and Commission	17,642 9 5	
234,260		" Interest on Debenture Stocks	234,259 17 11	
2,891	254,788	" Interest on Banking Balance	12,234 4 4	264,136 11 8
..	17,744	" Feu-duties	..	18,834 3 1
6,250		" Bathgate Ry. Co., 6 months' rent	6,250 0 0	
7,583		" Forth and Clyde Railway, proportion of Traffic for half-year	7,582 16 7	
6,517		" Dundee and Arbroath Joint Railway, one half	6,516 19 4	
71,191		" Forth Bridge Railway, proportion of Traffic to date	72,573 14 2	
1,800	93,341	" Gifford & Garvald Railway, proportion of Traffic	1,800 0 0	94,723 10 1
	753,164	" Balance available for Dividend..	..	754,214 13 3
	1,119,037			£ 1,131,908 18 1

Cr.

Half-Year ending 31st July 1905 £	Half-Year ending 31st July 1905 £		£ s d	£ s d
	10,573	By Balance from last half-year	..	11,019 10 1
	1,107,003	" Balance from Revenue Account	..	1,113,122 13 11
1,299		" General Interest Account	7,604 8 5	
162	1,461	" Dividends on Shares in other Companies ..	162 5 8	7,766 14 1
	1,119,037			£ 1,131,908 18 1

GENERAL BALANCE SHEET.

Dr.

	£ s d
To Net Revenue Account, Balance at Credit thereof, as per Account	754,214 13 3
" Unpaid Interest and Dividends	41,520 19 2
" Guaranteed Dividends and Interest Payable or Accruing	42,208 17 7
" Debts due to other Companies	35,457 16 11
" Amount due to Clearing-House	16,576 0 0
" Sundry Outstanding Accounts	500,426 11 0
" General Insurance and Contingent Fund	41,778 9 7
" Savings Bank Deposits	492,394 18 6
" Superannuation Fund	193,828 8 10
" Balance due to Bankers	555,063 10 2
£	2,673,470 5 0

Cr.

	£ s d
By Capital Account, Balance at Debit, as per Account ..	1,760,037 7 1
" General Stores—Stock of Materials on hand	316,763 0 11
" Working Stock in course of Construction	34,435 6 2
" Traffic Accounts due to the Company	242,375 13 5
" Amount due by Post-Office	2,735 6 8
" Sundry Outstanding Accounts	313,312 19 3
" Amount due by other Companies	3,810 11 6
£	2,673,470 5 0

HOSPITAL.

BALANCE SHEET, 31st December 1905.

Dr.

		£ s d	£ s d
To Subscriptions and Donations towards the cost of Land, Buildings, Furnishing of Hospital, &c., &c., as per printed accounts of the Hospital, 31st December 1905			4,260 8 7
" Legacy, Marriott Bequest in 1899 ..			500 0 0
" Income and Expenditure, Balance Account—			
Income in Excess of Expenditure—			
Year ending 31st December 1896 ..		104 5 10	
" " 1897 ..		299 9 7	
" " 1899 ..		65 10 8	
" " 1900 ..		11 6 3	
" " 1901 ..		113 8 2	
" " 1902 ..		140 3 1	
" " 1903 ..		145 3 6	
" " 1904 ..		179 16 10	
" " 1905 ..		231 13 11	
		1,290 17 10	
Less Expenditure in excess of Income—			
Year ending 31st Dec. 1895	£110 13 2		
" " " 1898	48 19 7		
		159 12 9	
		1,131 5 1	
Less—			
Painting and Drainage, 31st Dec. 1902	£124 17 7		
Painting and Decorating, 31st Dec. 1905	188 3 10		
		313 1 5	
			818 3 8
			£5,578 12 3

Cr.

	£ s d	£ s d
By Cost of Land, Buildings, Furnishing of Hospital, &c., &c., as per printed Accounts of the Hospital, 31st December, 1895		4,260 8 7
" Purchase of Land, Deposit, 1898 ..	200 0 0	
" " " Balance, 1899 ..	275 0 0	
" Redemption of Tithe on Balance, 1899	35 5 1	
" Erection of Fence and Iron House, 1900	95 5 0	
" Bathroom and Cupboards, 1901	32 10 6	
" Electric Light Installation, 1902 ..	40 19 4	
" Hot-water Boiler and Architects' Fees, 1904..	34 15 0	
		713 14 11
" Cash on Deposit		500 0 0
" Balance at Bank, 31st December 1905, on General Account		98 18 9
" Petty Cash in Hand		5 10 0
		£5,578 12

INCOME AND EXPENDITURE ACCOUNT

Income.	£ s d	£ s d	£ s d
Annual Subscriptions, as per list	883 19 6		
Donations, as per list	64 8 0		
Boxes "	3 19 5		
		952 6 11	
Hospital Sunday Fund		105 13 9	
Entertainments		19 19 0	
Invested Property—			
Interest on Deposit Account	12 0 5		
Rents	5 0 0		
		17 0 5	
Patients' Payments—			
In-Patients	35 3 0		
Other Receipts—			
Local Hospital Saturday Collection	84 7 0		
Trade and Friendly Societies' Hospital Parade	26 4 0		
" " " Balance, 1904 ..	5 2 1		
		115 13 1	
			1,245 16 2
Petty Cash on Hand, 1st January 1905			4 1 0
Balance at Bank, 1st January 1905			56 17 8
			£1,306 14 10

FOR THE YEAR ENDING 31ST DECEMBER 1905.

Expenditure.

	£ s d	£ s d	£ s d
MAINTENANCE.			
Provisions—			
Meat	86 3 2		
Fish, Poultry, &c.	18 2 11		
Butter, Cheese, &c.	37 6 5		
Eggs	8 7 0		
Milk	71 7 2		
Bread, Flour, &c.	33 0 2		
Grocery	68 5 2		
Vegetables	15 16 10		
		338 8 10	
Surgery and Dispensary—			
Drugs, Chemicals, Disinfectants, &c.	43 10 11		
Dressings, Bandages, &c.	38 13 0		
Instruments and Appliances..	9 3 6		
Ice and Mineral Waters	5 3 1		
Wine and Spirits	1 16 0		
Sundries	2 10 10		
		100 17 4	
Domestic—			
Renewal of Furniture	35 2 2		
Bedding and Linen	26 17 3		
Hardware, Crockery, Brushes, &c.	13 5 8		
Washing	89 5 5		
Cleaning and Chandlery	4 14 3		
Water	9 7 6		
Fuel and Lighting	97 0 6		
Sundries	24 13 11		
		300 6 8	
Establishment Charges—			
Insurance..	3 19 0		
Garden	17 3 3		
Repairs (Ordinary)	44 7 0		
		65 9 3	
Salaries, Wages, &c.			
Nursing	126 8 9		
Other Salaries and Wages	47 3 9		
		173 12 6	
Miscellaneous Expenses—			
Printing, Stationery, Postage, &c...	6 4 8		
Sundries	1 17 6		
		8 2 2	
ADMINISTRATION.			
Official Printing and Stationery	18 11 11		
Official Postage, Telegrams and Cheque Stamps ..	5 5 1		
Official Advertisements	0 18 6		
Sundries	2 10 0		
		27 5 6	
Total Ordinary Expenditure			1,014 2 3
			1,014 2 3
Balance at Bank 31st December 1905			98 18 9
Petty Cash in hand 31st December 1905			5 10 0
EXTRAORDINARY EXPENDITURE.			
Repairs			188 3 10
			£1,306 14 10

INSURANCE COMPANY.

REVENUE ACCOUNT FOR THE YEAR ENDING 20TH NOVEMBER 1905.

(Pursuant to "The Life Assurance Companies Act, 1870," First Schedule.)

	£ s d
Amount of Funds on the 20th November, 1904.. ..	6,066,583 9 4
Premiums (after deduction of Reassurance Premiums)	466,127 12 4
Consideration for Annuities granted	22,513 17 8
Interest and Rents	245,041 11 10
Assignment Fees	180 7 6
Fines for Renewals of Lapsed Policies	147 14 0
	£6,800,594 12 8

		£ s d
Claims under Policies	£298,962 9 0	
Endowment Assurances Matured ..	88,157 2 11	
Endowments	947 0 0	
		388,066 11 11
Surrenders		27,235 8 5
Annuities		11,504 9 8
Commission		16,169 16 8
Expenses of Management :—		
Agency and Advertising	8,978 1 10	
Printing and Stationery	1,804 6 4	
Stamps	1,396 4 11	
Directors' Fees	4,000 0 0	
Medical Officers and Referees	1,962 1 6	
Law Charges	547 16 1	
Auditors' Fees..	393 15 0	
Office Salaries and Wages..	8,637 5 7	
Rent, Rates, Taxes, &c.	2,714 12 11	
Incidental Expenses..	832 2 4	
Depreciation of Office Fixtures, &c. ..	417 0 0	
		31,683 6 6
Income Tax		11,512 8 4
Bonus Reductions in Premium		54,517 17 9
Amount of Funds on the 20th November, 1905, as per Second Schedule		6,259,904 13 5
		£6,800,594 12 8

BALANCE SHEET ON 20TH NOVEMBER 1905.

(Pursuant to "The Life Assurance Companies Act, 1870," Second Schedule.)

Liabilities	£	s	d
Assurance Fund as per First Schedule	6,259,904	13	5
Superannuation Fund	23,771	4	6
Claims admitted or announced	33,727	1	10
Amount due to Agents and other Credit Balances	10,738	3	2
	£6,328,141	2	11

NOTE.—In this Balance Sheet the Stock Exchange Securities (amounting to £2,475,790) stand at the values at which they were taken on the 20th November 1902, the date of the last Quinquennial Valuation, or at cost price in the case of any acquired since that date; their aggregate value on 20th November, 1905, at the market price of that day, was about £26,000 less.

Assets	£	s	d	£	s	d
Mortgages on Property in England and Wales				1,765,847	8	10
Advances to Corporate Bodies ditto				311,701	13	2
Loans on the Institution's Policies				381,096	8	0
Loans on Life Interest and Reversions				23,950	0	0
Reversions purchased				10,968	9	8
British Government Securities				51,000	0	0
Colonial and Provincial Government Securities				793,698	3	9
Foreign Government Securities				230,170	0	4
Foreign and Colonial Municipal Securities				354,599	1	7
Railway and other Debentures and Debenture Stock				978,647	1	4
Railway and other Stocks and Shares (Guaranteed and Preferred Ordinary) and Annuities				67,675	15	10
Freehold and Leasehold Ground, Head or Improved, Rents				779,328	7	4
Freehold and Leasehold Property, including the Institution's Freehold Offices in Gracechurch Street				416,487	6	11
Office Fixtures and Furniture				3,354	9	11
Amount due by Agents and other Debit Balances				7,373	12	2
Outstanding Interest due and unpaid				4,338	5	11
Accrued Interest not yet payable				54,452	0	0
Outstanding Premiums				69,552	0	0
Cash:—On deposit with:—						
R. Cunliffe, Sons & Co.	£5,000	0	0			
Union Discount Co., Ltd.	5,000	0	0			
In hands of Bankers	13,874	18	1			
Petty Cash in hand	2	4	5			
				23,877	2	6
Policy and Loan Stamps in hand				23	15	8
				£6,328,141	2	11

WATER COMPANY.

REVENUE ACCOUNT FOR THE HALF-YEAR ENDING JUNE 30TH 1906.

	£ s d	£ s d
To Maintenance—		
1. Wages at Pumping Stations	246 4 7	
2. Coal and other Fuel, including Cartage ..	590 0 7	
3. Sundry Stores, Oil, Waste, &c.	37 0 2	
4. Repairs and Maintenance of Works and Plant	562 12 2	
5. Repairs and Maintenance of Mains and Service Pipes, and Expenses of Distribution	262 8 9	
6. Engineers' Fees	37 3 0	
7. Salaries and Expenses at Local Office ..	235 9 10	
		1,970 19 1
8. Easements and Rent of Leasehold Land		46 18 6
9. Rates and Taxes		535 12 11
To Management—		
10. Directors' Fees	200 0 0	
11. Auditors' Fees	21 0 0	
12. Salary of Secretary, Clerks, Rent of Offices, &c.	200 0 0	
13. Collector's Salary and Expenses	73 7 7	
14. General Establishment Charges	67 3 7	
15. Stationery and Printing	67 6 7	
16. Law Costs	6 10 8	
		635 8 5
		3,188 18 11
To Balance carried to Profit and Loss Account..		4,465 16 0
		£7,654 14 11

	£ s d
1. By Water Rental for the half-year ending June 30th 1906, *less* Bad Debts, Empty Houses, and Allowances	7,442 6 8
2. By Service Laying and Fittings Account	201 8 3
3. By Dividends received	5 5 0
4. By Transfer and Registration Fees	3 10 0
5. By Rents received	2 5 0
	£7,654 14 11

N.B.—The Capital Account and Balance Sheet of a Water Company are very similar to those of a Gas Company.

BREWERY COMPANY.

Dr. BALANCE SHEET, 7TH JANUARY 1906. *Cr.*

Liabilities	£	s	d	£	s	d
To Share Capital, viz:—						
80,000 Preference Shares of £10 each	800,000	0	0			
75,000 "A" Preference Shares of £10 each	750,000	0	0			
4,000 Ordinary Shares of £1 each ..	4,000	0	0			
				1,554,000	0	0
" Debenture Stock at 4 per cent. ..	600,000	0	0			
" Do. Do. " 3½ " ..	200,000	0	0			
				800,000	0	0
" Mortgages				110,775	0	0
" Deposits				134,900	7	3
" Interest on Debenture Stock to date (*less* Tax) since paid, viz:—						
4 per cent. Debenture Stock ..	11,400	0	0			
3½ " do. do. ..	3,325	0	0			
				14,725	0	0
" Interest on Mortgages and Deposits				2,698	10	0
" Dividends unclaimed				16	5	1
" Sundry Creditors				29,993	3	9
N.B.—There are contingent Liabilities on 1st Mortgages of £30,250.						
" Reserve Fund				116,860	6	6
" Profit and Loss, viz.:—						
Balance from last Account ..	5,429	5	1			
Profit for the 12 months to date	69,109	7	5			
	74,538	12	6			
Less Interim Dividend on Preference Shares	20,000	0	0			
				54,538	12	6
				£2,818,507	5	1

Assets	£	s	d
By Freehold and Leasehold Properties, and Goodwill, *less* Reserve for Depreciation of Leases ..	1,611,873	10	2
" Fixed Plant, &c.	45,234	0	0
" Loans, *less* Reserve for Bad and Doubtful	1,007,949	17	2
" Stock of Beer, Malt, Hops, Casks, Horses, Vans, &c.	70,006	11	10
" Book Debts, Rents and Interest receivable, *less* Reserve for Discounts and Bad and Doubtful Accounts..	56,312	6	10
" Investments, Cash in hand, and at Bankers ..	27,108	3	9
" Cash in the hands of the Trustees for the Debenture Stock	22	15	4
	£2,818,507	5	1

TRADING ACCOUNT.

	£	s	d		£	s	d
To Depreciation of Leasehold Property, Wear and Tear of Plant and Machinery and Repairs	16,433	3	2	By Gross Profit on manufacture and sale of Beer (*less* Discount), Profit Rental, Interest on Loans receivable, Dividends and Profits on Investments	198,942	0	10
" Trade charges, Salaries, Wages and Sundry Expenses, including provision for Bad and Doubtful Debts	66,883	3	10				
" Balance, Profit carried down	115,625	13	10				
	£198,942	0	10		£198,942	0	10

PROFIT AND LOSS ACCOUNT.

	£	s	d	£	s	d		£	s	d
To Interest paid and accrued, viz:—							By Balance, Profit brought down	115,625	13	10
Debenture Stock 4 per cent... ..	24,000	0	0				" Transfer Fees	51	0	6
Do. 3½ "	7,000	0	0							
Mortgages and Deposits	12,067	6	11							
				43,067	7	11				
" Directors' Fees				3,500	0	0				
" Balance carried to Appropriation Account				69,109	7	5				
				£115,676	14	4		£115,676	14	4

APPROPRIATION ACCOUNT.

	£	s	d		£	s	d
To Interim Dividend paid on Preference Shares for Half-year to 7th July, 1905	20,000	0	0	By Balance from 1905	5,429	5	1
" Dividend on Preference Shares for Half-year ending 7th January, 1906	20,000	0	0	" do. brought down	69,109	7	5
" Dividend on "A" Preference Shares, Half-year, 7th January, 1905	18,750	0	0				
" General Reserve Fund	10,000	0	0				
" Balance carried forward	5,788	12	6				
	£74,538	12	6		£74,538	12	6

Brewery Companies, for Trade reasons, do not publish their detailed Trading Accounts, but the following heads of Accounts will give an idea of the items found therein.

TRADING & PROFIT AND LOSS ACCOUNT, YEAR ENDING 31ST DECEMBER 1906.

		£ s d		£ s d
To Stock of Beer, Malt, Hops, &c., 1st Jan. 1906 ..			By Sales of Beer, *less* returns..	
" Materials Purchased, viz:—			" Stock of Beer, Malt, Hops, &c. 31st December, 1906.	
Hops	£			
Sugar				
Chemicals				
" Beer Duty				
" Gross Profit carried down..				
		£		£
To Salaries and Wages..			By Gross Profit, brought down	
" Rents Payable			" Discounts and Allowances	
" Alterations and Repairs to Premises			" Rents receivable	
" Horsekeep			" Interest receivable	
" Repairs to Vans, Carts, Harness, &c.				
" Licences, Rates and Taxes				
" Casks				
" Repairs to Plant				
" Insurances				
" Interest				
" Discounts allowed to customers				
" Depreciation of Leasehold Premises				
" Bad Debts written off				
		£		£

MINE.

BALANCE SHEET, 31st December 1905.

Dr.

	£	s	d	£	s	d
To Share Capital—						
Authorised and Issued— 400,000 Shares of £1 each				400,000	0	0
„ Sundry Creditors				3,185	18	2
„ Profit and Loss Account—						
As on 31st December, 1904 ..	87,896	18	3			
Less Directors' Percentage to 31st December, 1904	200	2	3			
	87,696	16	0			
Less Dividend of 1s. per Share paid 26th May, 1905	20,000	0	0			
	67,696	16	0			
Add—						
Profit for year ending 31st December, 1905	10,440	2	11			
	78,136	18	11			
Less—						
Income Tax (London) to 5th April, 1905 .. £2,234 4 9						
Australian Duty on Dividends 1,000 0 0						
	3,234	4	9			
				74,902	14	2
				£478,088	12	4

Cr.

	£	s	d
By Cash at Bankers, London and Australia, and Short Loans on Security	44,937	5	0
„ £25,000 Transvaal 3% Stock, at market value ..	24,750	0	0
„ £5,000 Consols	4,468	15	0
„ Japanese Government Bonds	7,074	10	0
„ Shares held, at market value	6,972	10	0
„ Sundry Debtors	2,474	7	6
„ Mining Leases, etc.	324,697	4	9
„ Plant and Machinery	51,728	13	1
„ Buildings	3,147	0	0
„ Sundry Stores, etc.	7,192	3	11
„ Horses, Vehicles and Harness	132	2	0
„ Office and Camp Furniture, London and Australia	266	0	7
„ Loose Plant and Tools	248	0	6
	£478,088	12	4

Dr. PROFIT AND LOSS ACCOUNT, 31ST DECEMBER 1905. **Cr.**

	£ s d	£ s d
LONDON—		
Salaries, Rent and Office Expenses ..	706 17 2	
Printing and Stationery	168 14 11	
Cables, Telegrams and Postages ..	188 17 10	
Directors' Fees	650 0 0	
Legal Expenses	76 12 0	
Auditors' Fees	52 10 0	
Advertising	155 9 0	
		1,999 0 11
DEPRECIATION in value of Stocks and Shares		1,906 10 7
AUSTRALIA—		
Mining and Maintenance of Mines, &c.		67,144 12 0
Wear and Tear and Depreciation of Plant, Machinery, Buildings, Tools, &c.		15,057 6 10
Crushing, Treatment of Ore, &c., &c. ..		29,648 18 5
General Charges—		
Salaries	2,200 0 0	
Rent of Leases	339 19 10	
Insurance (Workers' Compensation and Fire)	1,913 6 3	
Miscellaneous Expenses..	2,406 6 9	
Cables and Postages	306 15 5	
Travelling Expenses	261 4 4	
Bank Commission	126 17 4	
Examination and Development Work on Properties worked under options, &c..	4,294 2 1	
		11,848 12 0
BALANCE, being the net Profit for year ending 31st December 1905		10,440 2 11
		£138,045 3 8

	£ s d	£ s d
BY GOLD REALISED	125,122 8 5	
Less REALISATION CHARGES ..	548 5 9	
		124,574 2 8
„ ROYALTIES, ETC.		9,303 16 0
„ INTEREST AND DIVIDENDS		4,017 0 0
„ TRANSFER FEES		150 5 0
		£138,045 3 8

INVESTMENT COMPANY.

BALANCE SHEET AS AT 30TH JUNE 1906.

Capital and Liabilities		£	s	d
AUTHORISED CAPITAL (under Resolution of 23rd November, 1905) ..	£4,500,000 0 0			
of which £4,345,000 is Registered Capital.				
CAPITAL ISSUED		3,950,000	0	0
RESERVE FUND		1,000,000	0	0
MINING LOANS SPECIAL RESERVE		142,219	2	8
MONEY ON DEPOSIT AND ON LOAN		564,079	11	3
SUNDRY CREDITORS		44,428	6	6
BALANCE—PROFIT AND LOSS		38,780	7	11
CONTINGENT LIABILITIES—Uncalled Capital on Investments and Sundry Guarantees	£102,372 5 0			
		£5,739,507	8	4

Assets	£	s	d
CASH ON HAND AND AT BANKERS	128,222	11	4
LOANS ON MARKET SECURITIES IN LONDON AND JOHANNESBURG	583,220	16	10
LOANS ON BONDS AND ON SECURITY OF REAL ESTATE	122,666	10	11
DIVIDENDS ACCRUED IN RESPECT OF STOCKS AND SHARES	16,731	19	9
BILLS RECEIVABLE AND SUNDRY DEBTORS	86,880	11	2
LOANS TO MINING AND OTHER COMPANIES	545,251	0	10
INVESTMENTS IN REAL ESTATE	775,301	18	0
INVESTMENTS IN GROUND RENTS..	91,673	16	6
INVESTMENTS IN MINING AND OTHER PROPERTIES ..	291,830	13	9
INVESTMENTS IN MACHINERY, MINING REQUIREMENTS AND SUNDRIES	619	3	0
INVESTMENTS IN STOCKS AND SHARES in Mining, Industrial, and other Undertakings	3,088,847	0	8
OFFICE FURNITURE, FITTINGS AND INSTRUMENTS ..	8,261	5	7
	£5,739,507	8	4

PROFIT AND LOSS ACCOUNT, 1st July 1905 to 30th June 1906.

	£	s	d
To Salaries, including Directors' and Auditors' Fees..	44,619	11	7
" Interest Paid	12,295	14	6
" Establishment Charges including Rent and Taxes, Insurance, Law Costs, Cables, Stationery, Printing and Advertising	13,156	6	3
" Depreciation in Market Value of Stocks and Shares and in Sundry Investments at 30th June, 1906, written off ..	379,610	17	9
" Depreciation in Furniture, Fittings, and Instruments	561	12	10
" Depreciation of Investments in Ground Rents, amount written off	7,300	16	6
" Allowance against Bad Debts	9,054	5	10
" Balance, being Profit..	38,780	7	11
	£505,379	13	2

				£	s	d
By Balance from Last Account..				173,736	9	4
" Rents and Licence moneys received				42,257	16	2
" Extension of Leases ..				2,690	0	0
" Dividends on Investments ..				126,699	3	6
" Interest and Commission received				72,718	5	9
" Profit on Stocks and Shares and other Assets realised	£67,554	18	1			
Less Loss on ditto	814	12	8	66,740	5	5
" Gross Profits from all other sources including Agency and Secretarial Fees and Departmental Earnings in Johannesburg and London				20,537	13	0
				£505,379	13	2

CHAPTER V.

FORMS OF AUDITORS' CERTIFICATES UNDER DIFFERENT ACTS.

Under the Companies Act, 1900.—

To a Balance Sheet.

"In accordance with the provisions of the Companies Act, 1900, we hereby certify that all our requirements as auditors have been complied with. We report that we have examined the above Balance Sheet with the books and vouchers of the company, and that, in our opinion, such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs, as shown by the books of the company."

(Signed) A. B. & Co.

—— day of —— 19

To the Report for a Statutory Meeting.

"We hereby certify that so much of this Report as relates to the shares allotted by the company, to the cash received in respect of such shares, and to the receipts and payments on Capital Account to date of the Report, is correct."

(Signed) A. B. & Co.

—— day of —— 19

Under the Companies Act, 1879. (Relating to Banking Companies).—

"In accordance with the provisions of the Companies Act 1900, we hereby certify that all our requirements as auditors have been complied with. We report that we have examined the above Balance Sheet with the books and vouchers of the company, and that, in our opinion, such Balance Sheet *is a full and fair Balance Sheet,* and properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as shown by the books of the company."

(Signed) A. B. & Co.

—— day of —— 19

Under the Railway Companies Act, 1867.—

"We hereby certify that the foregoing accounts contain a full and true statement of the financial condition of the company, and that the dividends proposed to be declared on the stock and shares of the company are *bonâ fide* due thereon, after charging the revenue of the half-year with all expenses which, in our judgment, ought to be paid thereout."

(Signed) A. B. & Co.

—— day of —— 19

Under the Building Societies Act, 1894.—

"We, the undersigned (A. B.), being a person who publicly carries on the business of an accountant at (No. 1, Blank Street, London), and (C. D.) residing at (No. 1, London Road, Croydon), the duly appointed auditors of the above-mentioned society, do hereby attest the foregoing accounts and statements, and certify that they are correct, duly vouched, and in accordance

with law, and we certify that we have, and each of us has, at this audit actually inspected the mortgage deeds and other securities belonging to the society, in respect of the (99) properties in mortgage to the society referred to in the foregoing accounts and statements."

(Signed) A. B.,
C. D.,
—— day of ——

Under the Friendly Societies' Act, 1896.—

"The undersigned, having had access to all the books and accounts of the society, and having examined the foregoing general statement, and verified the same with the accounts and vouchers relating thereto, now sign the same as found to be correct, duly vouched, and in accordance with law."

(Signed) A. B., *Public Auditor:
or C. D., & E. F., Auditors.
—— day of —— 19

(*This refers to a Public Auditor appointed under the Friendly Societies' Act.)

Under the Companies Act, 1907 (in force from 1st July 1908).—

"In accordance with the provisions of the Companies Act, 1907, we report that we have obtained all the information and explanations we have required, and that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us, and as shown by the books of the company."

CHAPTER VI.

PROVISIONS OF THE COMPANIES ACTS, 1900 AND 1907, RELATING TO AUDITORS.

Companies Act, 1900.

Appointment.—

EVERY company shall, at each annual general meeting, appoint an auditor or auditors to hold office until the next annual general meeting.

If an appointment is not made at an annual general meeting, the Board of Trade may, on application of any member of the company, appoint an auditor for the current year and fix his remuneration.

A director or other officer cannot be appointed auditor.

The first auditors may be appointed by the directors before the statutory meeting, and they hold office till the first annual general meeting, unless previously removed by a resolution of shareholders in general meeting, in which case shareholders at such meeting may appoint auditors.

Directors may fill any casual vacancy in office of auditor, but while any such vacancy continues the surviving or continuing auditor or auditors, if any, may act.

Remuneration.—

To be fixed by the company in general meeting, except that the remuneration of any auditors appointed before the statutory meeting, or to fill any casual vacancy, may be fixed by the directors.

F 2

Rights and Duties.—

Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of his duties. The auditors shall sign a certificate at the foot of the Balance Sheet stating whether or not all their requirements as auditors have been complied with, and shall make a report to the shareholders on the accounts examined by them, and on every Balance Sheet laid before the company in general meeting during their tenure of office; and in every such report shall state whether, in their opinion, the Balance Sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as shown by the books of the company, and such report shall be read before the company in general meeting.

Companies Act, 1907.

(In force from 1st July 1908.)

Section 19 (substituted for Section 23 of the Companies Act, 1900).—

(1) Every auditor of the company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

(2) The auditors shall make a report to the shareholders on the accounts examined by them, and on every Balance Sheet laid before the company in general meet-

ng during their tenure of office, and the report shall state :—

(*a*) whether or not they have obtained all the information and explanations they have required; and

(*b*) whether, in their opinion, the Balance Sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

(3) The Balance Sheet shall be signed on behalf of the board by two of the directors of the company, or, if there is only one director, by that director, and the auditors' report shall be attached to the Balance Sheet, or there shall be inserted at the foot of the Balance Sheet a reference to the report, and the report shall be read before the company in general meeting, and shall be open to inspection by any shareholder, who shall be entitled to be furnished with a copy of the Balance Sheet and auditors' report at a charge not exceeding 6d. for every hundred words.

(4) A person, other than a retiring auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice of an intention to nominate that person to the office of auditor has been given by a shareholder to the company not less than fourteen days before the annual general meeting, and the company shall send a copy of any such notice to the retiring auditor, and shall give notice thereof to the shareholders, either by advertisement or in any other mode allowed by

the articles, not less than seven days before the annual general meeting: Provided that if, after a notice of the intention to nominate an auditor has been so given, an annual general meeting is called for a date fourteen days or less after that notice has been given, the notice, though not given within the time required by this provision, shall be deemed to have been properly given for the purposes thereof, and the notice to be sent or given by the company may, instead of being sent or given within the time required by this provision, be sent or given at the same time as the notice of the general annual meeting.

(5) If any copy of a Balance Sheet which has not been signed as required by this section is issued, circulated, or published, or if any copy of a Balance Sheet is issued, circulated, or published without either having a copy of the auditors' report attached thereto or containing such reference to that report as is required by this section, the company, and every director, manager, secretary, or other officer of the company who is knowingly a party to the default, shall on conviction be liable to a fine not exceeding £50.

CHAPTER VII.

DECISIONS AFFECTING AUDITORS.

Lee v. Neuchatel Asphalte Co., Lim.—

Held, that a Company may by its Articles of Association provide for the distribution of Profits arrived at before making good the depreciation of fixed assets.

The Neuchatel Company was founded to work a concession granted by the Government of the Canton of Neuchatel, in Switzerland, for a term of years, to obtain bituminous rock and mineral products from the Val de Travers, and certain surrounding districts.

The articles of the company stated that the directors might set aside and invest out of the net profits of the company such sum as they thought proper, as a reserved fund to meet contingencies or equalise dividends, or repair or maintain the company's works, but should not be bound to reserve moneys for the renewal or replacing of any lease, or of the company's interest in any property or concession.

Dividends were paid in different years at varying rates, but enough was not written off the cost of the concession each year to wipe it out by the time it expired.

The accounts for the year 1885 showed a profit, out of which the directors recommended a dividend of 9s. a share on the preference shares. A resolution to this effect was passed by a majority of shareholders. An ordinary

shareholder of the name of Lee, on behalf of himself and all the ordinary shareholders, brought an action against the company and the directors, to restrain the payment of the dividend proposed to be paid out of what the defendants alleged were the profits of the company for the year ending December 31st 1885.

The action was dismissed. The plaintiff appealed; and the Court dismissed the appeal.

In giving their decision, the Judges said that the well-established principle of company law, that the capital assets of a company must not be used for payment of dividend, would not apply in the present instance owing to the particular circumstances of the case. It was quite obvious that with respect to a property of this kind every ton of stuff got out of that which was bought with capital represented a portion of capital; but the division of the profit arising from the sale was not such a return of capital as is prohibited by the Company Acts. In such a case a dividend may be paid out of annual profits, *i.e.*, out of profits arising from the excess of ordinary receipts over expenses properly chargeable to the Revenue Account; providing that there is nothing in the articles of association to the contrary.

Verner v. The General and Commercial Investment Trust, Lim.—

Held, that an Injunction to restrain a Company from paying a proposed dividend out of current profits on the ground that the capital of the Company is not intact, must be refused if the Company is solvent, and acting within its articles.

The General and Commercial Investment Trust Company had invested £900,000 in various securities authorised by its memorandum of association. The market value

of these at the end of the company's financial year, on the 28th February 1894, was £654,776, thus showing a depreciation of £240,000. Of such depreciation about £75,000 represented the amount which there seemed no prospect of recovering within any reasonable period. During the year ending 28th February 1894 the excess of the income derived by the company from its investments over the expenditure was upwards of £23,000.

Verner, and other stock-holders of the company, brought an action to restrain the company from declaring or distributing any dividend in respect of this particular year, seeing that the excess of profits over expenditure had been only £23,000, while there was a loss of capital to the amount of £75,000.

The memorandum of association stated that one of the objects of the company was to receive the dividends, income, profits, bonuses, and advantages of every description from time to time payable or receivable in respect of the company's investments, and to apply the same respectively according to the provisions of the articles of association in force for the time being.

The articles provided that these profits should be applicable, first, for a 5 per cent. dividend on the preferred stock; second, to payment of such a dividend on the deferred stock as they should suffice to pay; and also that the trustees should have power to set aside out of profits such sums as they should think proper for reserves.

Lord Justice Lindley, in giving judgment, said that the broad question raised was whether a limited company which has lost part of its capital can lawfully declare or pay a dividend without first making good the capital

which had been lost. Such a proceeding might be imprudent, or opposed to sound commercial principles, but the legality or illegality of it was the point to be decided. In his opinion there was no law which prevented it in all cases and under all circumstances. Though the statutes did not expressly prohibit a payment of dividend out of capital, yet they were quite inconsistent with the returning of capital to the shareholders, except in the case of a winding-up, inasmuch as the capital of a limited company was intended to be applied for the purposes for which the company was formed, and returning it to shareholders was not such a purpose.

There was a vast difference, however, between paying dividends out of capital and paying dividends out of other money belonging to the company, and which is not part of the capital mentioned in the company's memorandum of association.

It was not the purpose of the Legislature to lay down a hard and fast rule which would prevent a flourishing company, either not in debt or well able to pay its debts, from paying dividends so long as the capital sunk in creating the business was not represented by assets which would, if sold, reproduce in money the capital sunk. The shortest way of expressing the distinction was to say that fixed capital might be sunk and lost, and yet the excess of current receipts over current payments might be divided; but that floating or circulating capital must be kept up, as otherwise it would enter into and form part of such excess, in which case to divide such excess without deducting the capital which forms part of it would be contrary to law.

In this particular case there was no suggestion of any improper juggling with the accounts; there was no insolvency; there was no question of winding up the company.

There was no payment of dividend out of capital such as the Companies Acts intended to make illegal, and the injunction against the Company would be dismissed.

Wilmer v. McNamara & Co., Lim.—

Held, that a Company cannot be restrained from declaring a dividend out of current profits, because no provision has been made for depreciation of fixed assets.

Part of the assets of McNamara & Co., Lim., consisted of goodwill, leaseholds, and plant.

For some years provision for depreciation of these assets was made in the company's accounts. In subsequent years revaluations were made, the last of which showed that the assets fell short of the nominal capital by £43,000. In the same year in which the last valuation took place, the profit on working amounted to nearly £6,000, and out of this it was resolved to pay a dividend to the preference shareholders.

On behalf of the ordinary shareholders an action was brought to restrain the company from paying the said dividend, on the grounds that no dividend ought to be paid till the loss of capital had been made up.

Mr. Justice Stirling, in giving his decision, referred to the articles of the company, which stated that "no dividend shall be payable except out of the profits arising out of the business of the company." In his opinion the articles appeared to consider profits as the excess of receipts over expenditure properly attributable to the

year, and there was nothing else in the articles to show that the value of the assets, acquired by the company at its formation, must be kept up. He considered that depreciation of goodwill and leaseholds was a loss of "fixed" capital, and not of "floating" capital, and that having regard to this fact, and also to the company's articles, the decisions in the cases of *Lee v. Neuchatel Asphalte Co.* and *Verner v. General Investment Trust* would apply, and the injunction must be refused.

Cox v. Edinburgh and District Tramways Co., Lim.—

Held, that when a Tramway Company alters its system from horse traction to cable traction, nothing need be written off Capital Account before paying dividends out of current profits.

This action was brought by a shareholder of the tramway company to restrain the company from paying a dividend before providing for a loss of about £20,000 consequent on the adoption of cable in place of horse traction, the £20,000 representing the difference between the amount at which the horses and old cars stood in the company's books, and the price they fetched when realised.

After referring to the cases of *Lee v. Neuchatel Asphalte Company* and *Verner v. General Investment Company* the Judge said that, apart from the rules laid down in these cases, there was, in his opinion, no legal necessity in the present instance for the company to provide for depreciation of this kind before paying a dividend.

The selling off of the horses and cars was a voluntary act on the part of the company, and was incidental to a transaction on which the company had embarked for its own benefit. Such sacrifice would presumably be com-

pensated by gains in other directions, and to compel the company to write off the loss would be to assume that the result of the whole transaction would be a loss equal to the loss on the discarded assets. Such an assumption in the present instance would be unfair.

This transaction on the part of the company could be compared to the pulling down by a merchant or manufacturer of his old buildings in order to replace them by larger and more costly ones for the benefit of trade.

It was similar to the replacing of old machinery by other machinery more effective and economical, or the substitution of steel rails for iron rails by a railway company. The assumption in all these cases is that the operation enhances the value or earning power of the concern as a whole, and the owner would not feel bound to carry the cost of the replaced asset to profit and loss.

Foster v. The New Trinidad Lake Asphalte Company, Lim.—

Held, that an unexpected appreciation in the value of assets taken over by a Company at its formation is not profit available for dividend, even though the asset in question be a book debt.

The New Trinidad Company acquired various assets from the old Trinidad Asphalte Company, among them being a book debt of 100,000 dols. due to the old company.

The debt was not considered of much value by the New Trinidad Company, and for some years was not included in their Balance Sheet. It was, however, ultimately received in full with accrued interest.

The debenture-holders brought on an action to restrain the company from paying a dividend of the principal of the debt recovered.

The question was not whether the amount might properly be brought into the next Profit and Loss Account, but simply whether or not it might be divided as profit without regard to the present value of the total capital assets, and whatever the result of the year's trading might be.

Mr. Justice Byrne, in giving his decision, said that, in his opinion, such dividend could not be paid. Though the debt did not appear in the Balance Sheet for some years, and was of the nature of an unexpected windfall, it yet formed part of the assets originally purchased by the New Trinidad Company. Some of the capital assets thus bought might have been over-valued, some under-valued; all were subject to fluctuations; but the fact that one had turned out of greater value than expected, did not change its nature.

The decisions given in *Lubbock v. British Bank of South America* and *Verner v. General and Commercial Investment Trust* certainly showed that an appreciation in total value of capital assets, if duly realised by sale or getting in some portion of such assets, might in a proper case be treated as available for purposes of dividend, but the true effect and meaning of them was that the question of what is profit available for dividend depends on the result of the whole accounts for the year, capital, as well as profit and loss, and a realised accretion to the estimated value of one item of the capital assets, cannot be deemed to be profit divisible among the shareholders without reference to the result of the whole accounts fairly taken.

Lubbock v. The British Bank of South America, Lim.—

Held, that if a Company's articles of association so provide, a profit made on the sale of a part of the undertaking is available for dividend.

The British Bank of South America carried on business in many parts of the world, but principally in America; and its name was in the first place the English Bank of Rio de Janeiro. In January in 1891 it entered into an agreement to sell its goodwill and property in Brazil to a Brazilian bank, to discontinue the use of its name, and to adopt a name not indicating a bank doing business in Brazil, for the sum of £875,000. The agreement also placed restrictions on the vendor company carrying on business in Brazil. This £875,000 was paid in June 1891. In November of the same year the restrictions against carrying on business in Brazil were released by the Brazilian bank on payment by the company to the latter of £75,000. On making up their accounts, the British Bank of South America took to the credit of Profit and Loss the sum of £205,000, which was arrived at by deducting from the £875,000 the £75,000 repayment, the £500,000 paid-up capital of the company, and certain compensation and expenses relating to the sale to the Brazilian bank.

Lubbock and other shareholders of the British Bank of South America brought an action against the company to restrain it from carrying such sum to Profit and Loss Account, and from dealing with or distributing it as if it were the income of the company.

For the plaintiffs it was argued that a sum produced by the sale of part of the undertaking of the company, and not by earnings, should be treated as an accretion to capital to be placed to the Capital Account.

The Judge, however, held that the £205,000 was plainly profit on capital, and not part of the capital itself; for it was the surplus ascertained on the assets' side after the liabilities and capital were placed on one side of the account and the assets on the other.

The judgment, therefore, was that under the articles of the company the directors were justified in carrying the £205,000 to the Profit and Loss Account, and, having appropriated to the Reserve Fund what they thought fit, they could distribute the remainder in dividend after the requisite resolution to that effect had been passed by the shareholders at the ordinary meeting.

The Leeds Estate Building and Investment Society, Lim. v. Shepherd.—

Held, to be an auditor's duty to see that accounts he certifies are actually correct. Liability for neglect.

The Leeds Estate Building Society, in voluntary liquidation, brought an action against the directors, the manager, and the auditor, to make them liable in respect of certain sums paid out of capital for dividends, and for fees and bonuses paid to the directors and manager respectively.

The articles of the company stated that no dividend was to be payable except out of profits; that the directors were to have fees in proportion to dividends paid; that the auditors should state in their report whether, in their opinion, the Balance Sheet was a full and fair Balance Sheet, properly drawn up, so as to exhibit a true and correct view of the state of the company's affairs.

The Balance Sheets were false and misleading, and framed with a view to the declaration of dividends. The

auditor was not furnished with a copy of the articles, and did not comply with their provisions.

Judgment was given for the plaintiffs, the Judge remarking that it was the duty of the auditor not to confine himself merely to the task of ascertaining the arithmetical accuracy of the Balance Sheet, but to see that it truly and accurately represented the state of the company's affairs. It was no defence to say that the auditor had not seen the articles, when he knew all the time of their existence.

The Irish Woollen Company, Lim. v. Tyson and Others.—

Held, that when the accounts of a Company have been falsified, and dividends improperly paid out of capital in consequence, the Auditor is liable if the falsifications might have been discovered by the exercise of reasonable care and skill.

On the winding-up, by order of the Court, of the Irish Woollen Company, it was discovered that dividends had for some time been paid out of capital.

An action was brought against the auditor, and he was found guilty of negligence. He appealed against this decision, and his appeal was dismissed.

The question before the Court of Appeal was simply whether the auditor was responsible for the non-detection of the frauds.

In delivering judgment, the Judge dealt with three sets of figures: (1) Stock in Trade, (2) Debtors, (3) Creditors. As regards the assets, he was convinced that the auditor had done his duty; but in the case of creditors this was not so. He then gave a detailed account of the fraud practised by omitting invoices for purchases from the books until after the Trial Balance had been taken out.

He thought that the appearance of the Creditors' Ledger should have sufficiently aroused the suspicions of the auditor to have led him to discover the fraud. After quoting from and commenting on the cases of the *Leeds Estate Building Company, The London and General Bank,* and the *Kingston Cotton Mills,* the Judges dismissed the appeal.

The Case of the London and General Bank, Lim.—

Held, that the Auditor of a Company registered under the Companies Act, 1879, *is an "officer" of that Company within the meaning of the Companies (Winding-up) Act,* 1890, *and further, that an Auditor is guilty of misfeasance who, when dissatisfied with the accounts of a Company, does not plainly draw attention to the grounds for his dissatisfaction in his certificate.*

The London and General Bank, Lim., had paid large sums as dividends, which payments were not out of profits but out of capital. It was decided that, under Section 10 of the Companies Winding-up Act, 1890, such payments constituted a misapplication of the funds of the company, for which the directors and auditors were liable.

Appeal was made against the decision on the ground that auditors were not cfficers of the company within the meaning of Section 10. The appeal was dismissed.

Section 10 runs as follows:—

"Where in the course of the winding-up of a company under the Companies Acts it appears that any person who has taken part in the formation or promotion of the company, or any past or present director, manager, liquidator, or other officer of the company, has misapplied or retained, or become liable

or accountable for, any moneys or property of the company, or been guilty of any misfeasance or breach of trust in relation to the company, the Court may compel him to repay any moneys or restore any property so misapplied or retained. . . . ."

In giving judgment the Judge made observations to the following effect:—

That, having regard to the sections of the Companies Act, 1879, it is impossible to say that an auditor is not an officer of the company. He is appointed by the company and paid by the company. He is not a servant of the directors. On the contrary, he is appointed by the company to check the directors.

The "misfeasance" mentioned in Section 10 of the Companies Winding-up Act, 1890, means a breach of duty.

For an auditor to commit a misfeasance he must be guilty of a breach of duty. What, then, are his duties? His business is to ascertain and state the true financial position of the company at the time of audit. How is he to ascertain such position? By examining the books of the company; and in doing this, he must take reasonable care to ascertain that the books themselves show the true position of affairs. He does not guarantee that the books correctly show the true position of the company's affairs; he does not guarantee that the Balance Sheet is accurate according to the books of the company. He is only bound to exercise reasonable skill and care in making inquiries and investigations. What is reasonable care in any particular case must depend on the circumstances of that case. He must be honest, and must not certify what he does not believe to be true.

There is no question, in this particular case, of the auditor failing in his duties in investigating the accounts; but he failed to discharge his duty to the shareholders in certifying and laying before them accounts without any reference to the report sent to the directors containing the grounds for his dissatisfaction with such accounts.

In the case of the Kingston Cotton Mill Company, Lim.—

Held, that in the absence of suspicious circumstances, an Auditor is not guilty of negligence who relies upon the statements made by trusted officers of a Company.

The auditors of the Kingston Cotton Mill Company, Lim., appealed against an order making them liable to make good to the company moneys improperly applied in payment of dividends on the faith of certain Balance Sheets which they had signed.

The facts of the case were that the manager of the company deliberately exaggerated the quantities and values of cotton and yarn held by the company at the ends of several years. A Stock Journal was entered up each year showing the amount of stock on hand under different heads at date of the Balance Sheet.

These heads were summarised, and the summary signed by the manager. The auditors checked the totals under the various heads on the summary, but did not examine further into the accuracy of the accounts summarised.

The Judges granted the appeal, and, in giving judgment, said that the questions involved were to a large extent covered by the remarks of the Judges in the *London and General Bank* case. It was no part of an auditor's duty to take stock; he must rely on some other person for the details of it, and for the materials to enable

him to enter it at its proper value in the Balance Sheet. In the present instance, if the auditors had gone more fully into all the books kept relating to stocks of cotton and yarn, the fraud would probably have been discovered; but the question was, Were the auditors wanting in reasonable care in not thinking it necessary to test the managing director's returns? In the absence of any suspicious circumstances they were not. They were watch-dogs, not bloodhounds. They were justified in believing tried servants of the company, in whom confidence had been placed by the company, and they were not to be made liable for not tracking out ingenious and carefully-laid schemes of fraud, where there is nothing to arouse their suspicion, and where such frauds remain undetected for years by the directors of the company.

The London Oil Storage Company, Lim. v. Seear, Hasluck & Co.—

Held, that it is the duty of the Auditor of a Company to take proper steps to verify the existence of assets stated in the Balance Sheet.

The London Oil Storage Company brought an action for damages against their auditors for alleged negligence in auditing their accounts.

For several years the cash in hand, as shown by the Petty Cash Book, increased in amount, and in 1902 it stood at £796. The petty cashier's duties were then taken over by another man, who found in the Cash Box only about £30.

For the defence it was urged that there was nothing to excite the auditor's suspicions. An auditor was entitled to act on the representations of a trusted servant of the company. The directors were not suspicious, yet they

expected the auditor to be so. The auditor considered that his duties ended when he had seen that the entries in the books created an asset.

In summing up, the Judge said that the words in the Companies Act, 1900, "as shown by the books of the company," did not excuse an auditor from making proper inquiries into any particular entries in the books; the question for the jury to decide was, Was the auditor guilty of breach of duty, and, if so, what loss was occasioned to the company by such breach of duty?

The jury decided that there was a breach of duty in four separate years, and that there was damage to the extent of £5 5s.

In giving judgment the Judge said that the case had raised the very grave and substantial question as to whether it was an auditor's duty to verify the existence of an asset, and the jury had evidence in the present instance that the auditor's suspicions should have been aroused.

The following summary may help to fix the foregoing cases in the memory:—

Distribution of Dividend sanctioned before provision for depreciation of

Wasting Assets.—*Lee v. Neuchatel.*
Investments.—*Verner v. General Investment Trust.*
Goodwill and Leaseholds.—*Wilmer v. McNamara.*
Assets replaced.—*Cox v. Edinburgh Trams.*

Are Capital Profits available for Dividend?

Foster v. New Trinidad.
Lubbock v. British Bank of South America.

Duties and Liabilities of Auditors.

Leeds Estate Building Society v. Shepherd.	Liability for neglect.
Irish Woollen Co., Lim. v. Tyson.	Liability for not exercising reasonable care and skill.
London and General Bank.	Auditor liable as an officer of a company within the meaning of the Companies (Winding-up) Act, 1890.
Kingston Cotton Mill.	Duties and liabilities with regard to stock-in-trade.
London Oil Storage v. Seear, Hasluck & Co.	Duty of auditor to verify existence of assets.

CHAPTER VIII.

MISCELLANEOUS.

CONTINUOUS AND COMPLETED AUDITS.

By a Continuous Audit is meant one where part of the work is done before the books are closed.

Its advantages over a Completed Audit are :—

(1) The whole audit can be completed soon after the books are closed.

(2) A more detailed audit can be performed.

(3) As the auditor comes at intervals during the year the bookkeeper cannot get very far behind with his work.

(4) As the examination of the books takes place soon after the entries are made, any errors can be more easily rectified than if they were left undetected till the end of the year.

The disadvantages of a continuous audit are :—

(1) There is a possibility of figures being altered after being checked, and this is a fact to be borne in mind by the auditor when deciding what parts of the audit he shall leave till the closing of the books is complete.

(2) There may be more reason for an auditor losing the thread of his work, if the audit is divided up into short visits throughout a year, than would be the case were the whole audit left till the books were closed.

INCLUSION OF ALL LIABILITIES IN A BALANCE SHEET.

The following would be some of the steps taken by an auditor in order to see that all liabilities had been included in a Balance Sheet he is asked to certify:—

In the case of a trading or manufacturing company, in order to see that all purchases had been included, he would inquire into the method of certifying and entering invoices for purchases, and ask whether all reasonable care was taken at stocktaking time to ensure invoices having been put through in respect of all goods taken into stock.

If the date of the Balance Sheet falls in the middle of a week he would see that a proportion of the week's wages had been reserved for; this also applying to salaries.

He would go through the Ledger Accounts for rent, rates, taxes, gas, water, commissions, royalties, &c., in order to see that the last amount debited brought the charge up to the date of the Balance Sheet.

He would see that accrued interest on all loans had been charged up to the date of the Accounts.

He would compare Expense Accounts, and also outstanding expenses, with those of previous years, in order to see whether any large difference exists which might throw light on items not reserved for.

He would inquire whether there was any special liability or claim against the company (as, for instance, a claim for compensation, or legal expenses for which an account had not been rendered).

He might also look through invoices, demand notes, accounts, &c., received by the company subsequent to the closing of the books, to see whether any of these liabilities were accruing prior to the date of the Balance Sheet, and had not been reserved for.

The reading of the Minute Book might bring to the notice of the auditor some liability to which his attention had not been called.

EXAMINATION OF ACCOUNTS OF A FIRM TO BE CONVERTED INTO A LIMITED COMPANY FOR PURPOSE OF GIVING CERTIFICATE OF PROFITS.

The following particulars will give an idea of the scope and direction of an investigation of this nature :—

It may be taken for granted, to a certain extent, that the vendors will not underestimate profits; therefore, what an auditor would concern himself with would be to see that income was not overstated, and that expenditure was not understated. He would not consider it so vital to satisfy himself that every source of income had been fully taken credit for, or that every expense stated was correctly charged and applicable.

He would compare the Revenue Accounts of one year with another, noticing and inquiring the reason for any large fluctuations under different heads.

He would see that all outstanding expenses had been included at the end of the period, and also would go into the apportioning of such expenses at the beginning of the period and at the end of each individual year.

He would go very thoroughly into the transactions of the last year or so, when it would be presumed the vendors first entertained the idea of converting the

business into a company, and would notice any decrease in expenses or increase in sales during this period.

In this connection it might be possible that the vendors were paying business expenses out of their own pockets, or leaving large repairs over till the next year, or neglecting to bring in all accruing expenses to date.

He would look carefully into the valuation of stock at the ends of the various years, noticing whether the method of valuing had been in any way altered, and comparing stocktaking prices with the market prices ruling at the particular dates.

He would go carefully into the book debts, seeing what average percentage had to be written off as bad in the past, and whether there were any particularly large debts which looked doubtful.

He would see what depreciation had been written off various fixed assets in past years, and could judge if it had been sufficient by comparing the book figures of assets with the valuation which would be made by an expert for purposes of the prospectus. It is frequently the case that the question of depreciation is left out altogether by the auditors, who certify the profits before providing for depreciation.

Capital expenditure for the whole period would be thoroughly vouched in order to see whether any of it might be properly attributable to Revenue.

The auditor would expressly state in his certificate the period covered by his investigations and the profit for each separate year, if such can be properly verified.

No credit would be taken for income of such kinds as:—

Income from assets not to be taken over by the company.

Capital profits, such as from sale of assets; profit on a fire; or extraordinary profits, as from compensation.

But, on the other hand, revenue would not be debited with charges such as:—

Charitable gifts.

Capital losses, as loss from a fire.

Extraordinary losses, as loss by defalcations.

Partners' salaries.

Income Tax.

Interest on capital.

Interest on loans.

DIFFERENCES IN BOOKS.

Although it is no part of an auditor's duty to find differences in books, yet his opinion is often asked as to arranging books so as to enable mistakes involving differences to be localised, and more easily rectified. He may also be specially called in by a client to advise as to, or to assist in, a search for a difference.

Questions relating to differences have not infrequently been set in Auditing Examination Papers, and the following notes may, therefore, also be found useful to students:—

We will presume an accountant holds in his hands the Trial Balance of the books of a business, containing a difference.

In the first place: Is the difference very large? If it is, it may be discovered by comparing the Trial Balance

with that of the previous year, to see whether there are the same headings of accounts with approximately the same figures against them, and on the same sides of the Trial Balance. Also see whether the difference is the exact amount of any particular balance. Also halve the difference, and see if there is a balance of this amount entered on the wrong side of the Trial Balance.

The next question for him to ask himself is: Are any of the Ledgers of the business self-balancing, or are there any means of localising a mistake?

If, for instance, the Bought and Sold Ledgers have been already balanced separately, the mistake must be in connection with some of the Private Ledger postings. If any one of these Trade Ledgers is out by the exact amount of the difference, the work resolves itself into checking the postings and additions of that Ledger and its Day Books and Cash Books, &c.

Supposing the mistake to be somewhere in the General or Private Ledger, there are several things which should be done before checking back the postings, for instance—

If the credits exceed the debits, the credit sides of the Cash Book and Journal should be scrutinised for unposted items. If the difference is on the other side, then the debit sides of the subsidiary books should be examined.

If the difference is one which would be involved by posting a sum of pounds and shillings as the same number shillings and pence respectively, or *vice versa*, it would be well to glance through the books for such a sum. For instance, a difference of £2 3s. 6d. might arise through posting £2 6s. od. as 2s. 6d.

If the difference is an amount which happens to recur frequently in the books, all postings of this amount might be checked back.

The Journal should be examined to see that the debits of each entry equal the credits in total.

If the difference is in round tens of pounds, it is not improbable that a mistake of that amount has been made in additions; while if it consists of pounds, shillings, and pence it is more likely to be a case of an error or errors of posting or extracting balances.

If all "short cuts" at finding a difference have failed, it only remains to check all postings and additions; but, before starting this, it may be worth while to see that the opening balances have been correctly brought down after the previous year's closing entries have been made.

Where it is a question of choosing between making a start on checking postings, or checking additions, the amount of the difference should be considered.

If it consists of pence only, the pence columns of all accounts could be checked comparatively quickly; but on the other hand, if pounds, shillings, and pence are involved, the postings would probably be first turned to.

INTERNAL CHECK.

The auditor to large concerns has to rely, to a great extent, on the system of internal check in force, hence frequent questions on this subject in Auditing papers. A list of features which would probably find a place in such a system is appended, and will serve as an indication of the principles affecting internal checks:—

(1) The cash and the Ledgers to be kept quite apart; no Ledger clerk being allowed to collect accounts, or no cashier to have anything to do with the posting of the Ledger.

(2) Ledgers to be made self-balancing, Total Ledger Accounts being kept quite independently of the Ledger keeper.

(3) Where feasible, the work of clerks to be changed about, so that no one man has continuous control of one department of the bookkeeping.

(4) Every clerk to have a holiday.

(5) Letters to be opened in the morning by a manager or secretary, or other responsible official, and all cash received from customers to be entered at once, and all cheques crossed into the banking account of the business. Total receipts to be paid into bank daily.

(6) Stamp Accounts, Petty Cash Accounts, &c., to be checked frequently by some senior official. In very large concerns, such as banks, it is customary to have an internal audit performed, embracing a check on transactions of every kind.

(7) Where possible, Stock and Stores Accounts to be kept, forming a check on the actual stocks and stores in hand as shown by stocktaking.

(8) Payments, where possible, to be made by cheque, and a good system of making large cash payments—as, for example, wages—to be in use. (See separately under 'Wages.")

(9) Invoices to be certified by manager, secretary, engineer, or other responsible person, before being entered in the Invoice Book.

(10) No receipts to be valid unless on the business's special receipt form.

POSITION OF AN AUDITOR TO AN INDIVIDUAL, A FIRM, AND A LIMITED COMPANY CONTRASTED.

An Auditor to an Individual is appointed by the individual, with whom his fee and the scope of his audit is arranged. The audit may be only partial, or it may be complete. The auditor, if he certifies the accounts, states in his certificate what ground his audit has covered.

An Auditor to a Firm is appointed by the firm, and in his connection he should ascertain that the partners with whom he is not brought into contact, concur in his appointment. Here again the audit may be only partial, or may be complete. The auditor's remuneration is fixed by the partners, and he must consider himself the servant of each partner. If he certifies the accounts he will word his certificate according to the nature and extent of the audit.

An Auditor to a Limited Company is the servant, not of the directors, but of the shareholders. He is only appointed by the directors if the company is a new one and has not met in general meeting, or if a casual vacancy in the office of auditor has to be filled. The shareholders have his re-appointment in their hands at every general meeting, and also the question of his remuneration. The auditor to a limited company differs from the auditor to an individual or a firm in that he does not come to the company to fix the scope or extent of his audit. He has to give a certificate and make a report, the wording of which is fixed by the Companies Acts, and he performs such an audit as will enable him to conscientiously sign such a certificate and report, and his signature is a guarantee to the shareholders that he has taken every necessary precaution in his examination.

CHAPTER IX.

REPRESENTATIVE EXAMINATION QUESTIONS ANSWERED AND DISCUSSED.

THE following questions and answers, though primarily intended for the use of examination students, will, it is hoped, be also of general interest, as exhibiting many of the principles affecting auditing and auditors not otherwise dealt with in this book.

A Colliery Company receives from a Wagon Company a number of wagons, paying for them on the hire-purchase system. How would you, as Auditor, expect the Colliery Company to treat the periodical payments in their books?

Illustrate your answer.

Assume that the Colliery Company receives ten wagons, and will pay £200 for each wagon, in four half-yearly instalments, the first of which is to be paid six months after receipt of the wagons. If the wagons were bought for cash, the price would evidently be under £200 per wagon, so that part of each deferred payment consists of interest, and it is only correct for the Colliery Company to charge altogether to the Asset Account of "Wagons," the cash price of such wagons. They would, therefore, ascertain that the difference between the cash value and the total value of the payments was equivalent to interest at a certain rate, say 5 per cent. or 6 per cent.

In this case the total sum to be paid is £2,000, of which £500 is due at the end of every six months.

The Colliery Company consider that, for the first six months, they have had a loan of £2,000 from the Wagon Company, so they calculate six months' interest at, say, 5 per cent. on the £2,000, and when paying the £500 instalment call the interest portion "wagon hire" and the balance capital, viz.: "Wagons." At the end of the second six months the loan stands at £2,000, less the capital portion of the last repayment, and interest is calculated on this figure. The result is that, of each £500 paid, the interest portion becomes smaller and the capital portion larger; and this heavier charge to Revenue in early years is compensated for by the fact that the deferred payments are then still earning money in the business.

WAGON COMPANY.

		£	s	d			£	s	d
1905 July 1	To Cash	500	0	0	1905 June 30	By Wagon Hire Account 5 % for 6 months on £2,000	50	0	0
						" Wagon Account ..	450	0	0
		£500	0	0			£500	0	0
1906 Jan. 1	To Cash	500	0	0	1905 Dec. 31	By Wagon Hire Account 5 % for 6 months on £2,000 *less* £450	38	15	0
						" Wagon Account ..	461	5	0
		£500	0	0			£500	0	0
1906 July 1	To Cash	500	0	0	1906 June 30	By Wagon Hire Account 5 % for 6 months on £1,088 15 0 (£1,550 *less* £461 5 0)	27	4	4
						" Wagon Account ..	472	15	8
		£500	0	0			£500	0	0
1906 Dec. 31	To Cash	500	0	0	1906 Dec. 31	By Wagon Hire Account 5 % for 6 months on £615 19 4 (£1,088 15 0 *less* £472 15 8)	15	8	0
						" Wagon Account ..	484	12	0
		£500	0	0			£500	0	0

WAGON ACCOUNT.

		£ s d			
1905 June 30	To Wagon Company ..	450 0 0			
Dec. 31	" " " ..	461 5 0			
1906 June 30	" " " ..	472 15 8			
Dec. 31	" " " ..	484 12 0			
	(Cash price of Wagons)	£1,868 12 8			

WAGON HIRE ACCOUNT.

		£ s d			£ s d
1905 June 30	To Wagon Company ..	50 0 0		By Profit & Loss Account	50 0 0
Dec. 31	" " " ..	38 15 0		" " " "	38 15 0
1906 June 30	" " " ..	27 4 4		" " " "	27 4 4
Dec. 31	" " " ..	15 8 0		" " " "	15 8 0

A railway station, built in 1850, was demolished in 1900 to make way for a larger and more convenient station, required by increased traffic and modern improvements. No Depreciation Fund had been raised. The old station cost £50,000, the new one £250,000; the materials of the demolished station realised £5,000, while the estimated cost to rebuild the old station on the same plans was £75,000. How would you, as auditor, consider the matter should be treated in the books of the Railway Company, and give your reasons.

As the accounts of the railway would be kept under the Double-Account System, the old station would not have been depreciated in the books, and would, therefore, be still standing at £50,000. As all replacements of fixed

assets are charged to Revenue, £50,000 of the £250,000 paid for the new station will be considered a replacement and written-off to Revenue, while to the old £50,000 will be added the new and additional expenditure of £200,000, thus making the total asset £250,000.

The £5,000 realised for old materials will go in reduction of the £50,000 charged to Revenue. The estimated cost of rebuilding the old station being more than the first cost of building it, does not affect the question.

What are your duties, as Auditor of a Company, with reference to the grouping of assets in a Balance Sheet?

What evils have to be avoided?

What general principles should be your guide?

As auditor, you should notice that assets should be grouped in a Balance Sheet in such a way that those of the same nature find a place next each other, and that the assets should be put in order of realisability—*e.g.*, starting with the most realisable asset, viz., cash; continuing with readily realisable assets, such as bills receivable, debtors, stock, investments; and going on to more permanent fixed assets, such as fixtures, plant, buildings.

On the other hand, many Balance Sheets are arranged with the assets in inverse order. The object of the Balance Sheet is to give shareholders and the public as clear an idea as possible of the nature of the assets without stating unnecessary detail; in fact, to make the Balance Sheet "properly drawn up so as to exhibit a true and correct view of the state of the company's affairs."

As Auditor of a Limited Company you find that, during the last week of the period under review, it has sold the greater part of its finished stock, so as to enable it to pay a dividend to the shareholders.

What circumstances would justify such a sale?

Would it affect the rate of dividend to be declared?

If so, why?

If not, upon what would such rate depend?

Whether a sale of most of the finished stock during the last few days of the financial period would affect the rate of dividend would depend upon the profit made on such sale. If the stock were got rid of at merely the cost of manufacture, the effect on the profits would be nil, and the only result of the transaction would be to charge a portion of the figure "Stock-in-Trade" into "Debtors" or "Cash," according to whether the sale was on credit or for cash.

On the other hand, if the usual rate of gross profit was made on the sale, the effect would be to increase the net profits by that amount, and therefore the sum available for dividend. Any other circumstances would hardly justify such a sale.

It is conceivable that a company may have earned sufficient profits to pay a dividend, but that, being short of floating capital, it has not enough cash available for the purpose.

The sounder alternative would be to refrain from paying a dividend until the floating capital was more than sufficient for the needs of the business; but other courses open to it would be to raise money on loan, or to provide cash by getting rid of stock at less than the usual selling price.

An Engineering Manufacturing Company replaces a quantity of plant in use in the works with entirely new plant, employing its own workmen to pull down the old and fix the new plant. Part of the new plant has been purchased and the remainder made in the Company's workshops. The directors, who wish to apportion the expenditure in a proper manner between Revenue and Capital, specially instruct you, being the Auditor to the Company, to make such apportionment.

Describe fully how you would carry out their instructions.

You would carefully separate all the receipts and expenses in connection with the replacement. The wages spent respectively in pulling down the old plant and fixing the new should be analysed out from the ordinary manufacturing wages. The materials used from stores on the new plant, and also those bought specially for the purpose, should be separated.

As to the treatment of Plant Account, the old account should be credited with any sales of old material, and the balance written off to Profit and Loss. In addition, Profit and Loss should be debited with the wages spent in the pulling down. The new account is debited with the cost of the new plant, also with the materials used out of stores, and with those bought specially for the purpose. The wages spent in erection will also be added, as they would form part of the cost of installing the plant were the company to employ an outside contractor instead of doing the work itself.

The Directors of a Company, owing to slackness of trade, purchased some Consols as a temporary investment at 98. They subsequently, owing to an improvement in trade, sold some at 95. At the date of making up the Balance Sheet the market price was 96.

They consult you, as Auditor, as to how to treat the transaction in their accounts. What would you advise?

You would advise the loss on the Consols sold being written off to Profit and Loss, and the depreciation of those remaining, which have dropped from 98 to 96, being also written off.

While on this question the position of affairs may be noted in the case of the above suggestions not being carried out, and the auditor having to sign the accounts.

If the realised loss was written off, and the unrealised loss not dealt with, the auditor would not mention the fact in his certificate provided that the Consols were stated in the Balance Sheet "at cost," and a note made to the effect that this figure was in excess of the current market value.

If, on the other hand, neither the realised nor the unrealised losses were written off, the effect would be that the figure at which Consols stood in the Balance Sheet would work out at over the cost price of 98. In this case the auditor would certainly report in his certificate that part of the Consols had been sold at a loss which had not been written off against profits, and that, consequently, the remainder appeared on the Balance Sheet at a figure greater than their cost.

The following Balance Sheet is that of a Patent Medicine Company, of which you are the Auditor. You are requested to point out and comment upon its deficiencies, and re-draft it in proper form, supplementing the information already given with imaginary figures—the date is September 30th 1903.

BALANCE SHEET.

	£ s d	£ s d		£ s d
Preference Shares	200,000 0 0		Purchase Account	350,000 0 0
Ordinary Shares ..	300,000 0 0		Patents and Fees Paid	45,700 0 0
		500,000 0 0	Investments	27,656 0 0
Debenture Stock		150,000 0 0	Sundry Debtors	249,371 14 2
Sundry Creditors		178,900 16 10	Special Advertising Account ..	22,750 0 0
			Furniture and Fixtures	2,400 12 11
			Experimenting Account	37,302 4 6
			Cash at Bank	73,410 3 2
			Profit and Loss Account	20,310 2 1
		£828,900 16 10		£828,900 16 10

On the Debit Side.—

The authorised *Capital*, as well as the issued, should be stated, also the amount of each preference and ordinary share, also the percentage of interest to which the preference shares are entitled. In the same way the rate of interest on the debentures should be stated.

The total of *Sundry Creditors* seems very large in view of the big bank balance on the other side of the Balance Sheet. The creditors should be separated into Trade Creditors on Open Accounts and on Bills Payable Accounts and Creditors for Loans and Creditors for Interest.

On the Credit Side.—

The *Purchase Account* presumably includes sundry fixed assets and goodwill. Some of these fixed assets would probably require depreciation writing off, and, as the figure

is a round one of £350,000, this would not seem to have been done. It would in this case be better to state what the figure includes and at what date this asset came into possession.

Patents and Fees Paid.—

Annual Patent Fees are a charge against Revenue, and should not be included here.

The life of a British patent is 14 years, and if these patents are being written off within that time they should be stated in the Balance Sheet "less depreciation."

Investments.—

These should be stated "at cost" or at market value on date of Balance Sheet. If they are spread over companies of various kinds they should be stated as "in sundry companies."

Sundry Debtors.—

This figure is very heavy, and should be split up into Debtors on Open Accounts, Debtors for Bills Receivable, and Debtors for Loans (if any).

If due provision has been made for discounts and doubtful debts, this figure should be stated "less reserve for discounts and doubtful debts."

Special Advertising Account.—

This looks like abnormal advertising, which should in any case be written off over a term of years, and, if this is being done, the fact should appear on the Balance Sheet.

Furniture and Fixtures.—

These should be depreciated from year to year and stated "less depreciation."

Experimenting Account.—

This is a large sum, and is presumably exceptional. It should not be even temporarily capitalised unless the experiments turn out of value to the business. Even in this case it should be written off in two or three years.

Cash at Bank.—

Might be split up under Deposit Account and Current Account.

The Balance Sheet is now shown re-drafted, with imaginary figures.

THE ——— PATENT MEDICINE COMPANY.

Dr. BALANCE SHEET, 30TH SEPTEMBER 1903. *Cr.*

Dr.	£ s d	£ s d
To Share Capital Account :—		
Authorised—		
300,000 6% Accumulative Preference Shares of £1 each	300,000 0 0	
400,000 Ordinary Shares of £1 each ..	400,000 0 0	
	£700,000 0 0	
Issued—		
200,000 6% Accumulative Preference Shares of £1 each		200,000 0 0
300,000 Ordinary Shares of £1 each ..		300,000 0 0
" First Mortgage 4% Debenture Stock ..		150,000 0 0
" Sundry Creditors :—		
On Open Accounts	24,270 16 10	
On Bills Payable Account	40,590 0 0	
On Loan Accounts	110,000 0 0	
For Interest	4,040 0 0	
		178,900 16 10
		£828,900 16 10

Cr.	£ s d	£ s d
By Purchase Account :—		
For Buildings, Plant, Goodwill, &c., as per Balance Sheet, 30th September 1902	320,000 0 0	
Less Depreciation written off ..	20,000 0 0	
		300,000 0 0
" Patents :—		
As per Balance Sheet, 30th September 1902	44,000 0 0	
Less Proportion written off ..	4,500 0 0	
		39,500 0 0
" Investments in Sundry Companies at current market prices		27,400 0 0
" Furniture and Fixtures as per Balance Sheet, 30th September 1902	2,400 12 11	
Less Depreciation written off ..	120 12 11	
		2,280 0 0
" Sundry Debtors :—		
On Open Account	189,371 14 2	
For Bills Receivable	60,000 0 0	
	249,371 14 2	
Less Reserve for Discounts and Doubtful Debts	2,100 0 0	
		247,271 14 2
" Cash at Bank :—		
On Deposit Account	65,000 0 0	
On Current Account	8,410 3 2	
		73,410 3 2
" Special Expenditure on Advertising ..	22,750 0 0	
Less One-third written off, say ..	7,583 0 0	
		15,167 0 0
" Special Expenditure on Experimenting	37,302 4 6	
Less One-half written off	18,651 4 6	
		18,651 0 0
" Profit and Loss, Balance as per Accouut		105,220 19 6
		£828,900 16 10

Criticise the following Balance Sheet, and say how far the Certificate has your approval:—

BALANCE SHEET, December 31st 1893.

Liabilities	£	*Assets*		£
To Sundry Creditors	400	By Cash—		
" Interest on Mortgage	200	Bankers	£100	
" Bank Loan	1,500	In Hand	50	
				150
		" Sundry Debtors		1,000
		" Library and Sundry Stock ..		750
		" Revenue and Expenditure Account Debit Balance..	500	
		Less Excess of Capital Account credit over Freehold Property Account debit	300	
			200	
		By Balance (deficiency)		200
	£2,100			£2,100

We hereby certify that the Revenue and Expenditure Account correctly records the year's transactions; and that, excluding the value of the Freehold, the Balance Sheet truly shows the financial position of the institution.

X. & Co.,
Auditors.

February 29th 1894.

One may presume that this is the Balance Sheet of some institute. Taking first the liabilities' side, the mortgage on the freehold ought to be shown as a liability and the freehold property as an asset.

On the assets' side the figure of Debtors seems rather heavy, and if any reserve has been made for doubtful debts the item should be worded "By Sundry Debtors, less reserve for doubtful debts." If some of the debts look doubtful or bad, and no such reserve has been made, the auditor would call attention to the fact in his certificate.

The assets "Library" and "Sundry Stock" ought to be stated separately, and in the former case depreciation will probably have to be written off, unless a yearly valuation is made and the figure treated as stock. The wording of the last item is unsatisfactory, Presumably the "debit balance £500" is the excess of expenditure over income for the year, and the "excess of Capital Account credit over Freehold Property Account debit £300" is the accumulated fund at 31st December 1892. In this case a better wording would be:—

	£	s	d	£	s	d
By excess of Expenditure over Income for the year as per Income Expenditure Account	500	0	0			
Less Balance of Capital Account at 31st December 1902	300	0	0			
				200	0	0

In the case of an institution the term "Income and Expenditure Account" would be more correct than "Revenue and Expenditure Account."

Presuming that everything was in order, the certificate might run as follows:—

"We hereby certify that we have examined the above Balance Sheet and Income and Expenditure Account with the books and vouchers of the (?) Institution, and that, in our opinion, these accounts correctly show the financial position of the Institution.

X. & Co.,

February 29th 1894. *Auditors.*"

The Balance Sheet of a Limited Company shows, under the heading of "Capital issued," "Amount paid on shares forfeited." What proof should an Auditor require of the correctness of the amount? In your opinion, what is the most correct way of setting out this item in the Balance Sheet?

If any of these shares be reissued so that a profit is derived from the forfeiture and reissue, how should this profit be treated in the accounts?

The auditor would read the articles of association to ascertain the regulations as to forfeiture of shares, and should find out, as far as possible, that the person whose shares have been forfeited had had due notice, and had rendered himself liable to the forfeiture. The most correct way of stating forfeited shares in the Balance Sheet is to deduct the total shares forfeited from the shares issued, and to show the cash received on such shares as a separate heading, "Forfeited Share Account."

A profit derived from a reissue of such shares may be left on the Balance Sheet as a reserve, or credited to Revenue, unless the company's articles prohibit the latter course.

Forfeited shares may be reissued at a discount not exceeding the amount formerly received on account of them.

On being appointed Auditor of a Company which has presented annual Balance Sheets to its shareholders for ten years, you find that some freehold buildings acquired at the formation of the Company, and some buildings acquired five years later on a thirty years' lease, are taken credit for in the tenth annual Balance Sheet at the prices paid for the freehold and leasehold respectively. What course would you advise the Directors to adopt with reference thereto before you certify the eleventh Balance Sheet?

The soundest course to adopt would be to write off at once the whole of the arrears of depreciation which should have been charged against the profits of previous years. That is to say, that, in addition to the depreciation for the eleventh year, ten years' depreciation would be written off the freehold buildings, say, at 1 per cent., and 5/30ths=1/6th off the cost of the leasehold buildings.

In the case of a large sum having been paid for these assets this course would be rather drastic, and the directors might decide to write the arrears of depreciation off over the next five years or so, instead of bringing such a heavy charge against the profits of the eleventh year.

Another way would be to spread the charge equally by writing a slightly larger percentage off the freehold in future, and 1/25th off the lease each year, so as to reduce it to *nil* by the time it expired.

In the case of either of these last two alternatives being adopted, you would call attention to the fact in your certificate.

To what extent may credit be taken in Profit and Loss Accounts in respect of—

(1) Works in progress.

(2) Goods sent out on consignment.

(3) Premiums received by a fire insurance company.

(4) Cost relating to matters pending in the offices of a solicitor.

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(1) The cost of work in progress in labour, materials, &c., to date of the accounts may be taken credit for in

arriving at the profits, and, in some cases, the proportion of profit estimated to have been earned on the work already done. This profit on uncompleted work should only be taken credit for when it is certain that the work or the contract will result in a profit, and when there is no probability of a loss occurring on the work yet to be done.

(2) Goods sent out on consignment should be taken into the accounts at cost price plus the charges of consigning them, and less any loss expected from claims, damage, &c.

(3) The fire insurance company will keep records of what proportion of its premium income is paid away in claims, and at the date of the accounts it will consider that, taking the year's premiums as a whole, half the risk of claims on them has run off.

Therefore it will reserve half the loss expected on the year's premium income.

(4) Costs relating to uncompleted work in a solicitor's office may be taken credit for, less any allowances thought likely to be made to the client, less also deductions likely to be made by a Taxing Master, and less counsel's fees owing.

What is the meaning of Forfeited Shares? How do they arise, and how should they be dealt with in a Company's books?

Forfeited shares are those which have been confiscated by a company owing to the holder failing to comply with some regulation with regard to them. The most common ground for forfeiture is the non-payment of a call.

As the company ceases to be liable for forfeited shares these shares are written off the Capital Account, while the cash already received in respect of such shares belongs to the company, and stands on the liabilities' side of the Balance Sheet as a reserve. It may not be distributed as dividend, but is sometimes used to write down assets such as goodwill.

Take the case of a company issuing 1,000 £10 shares, the application and allotment money on which at £5 a share is all paid. On the balance being called up, ten shareholders refuse to pay, and have their shares forfeited. The accounts affected would stand as follow:

SHARE CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Call Account, unpaid Calls on 50 forfeited Shares	50	0	0	By Application and Allotment Account:— £5 a Share on 1,000 Shares	5,000	0	0
" Forfeited Shares Account Paid Calls on 50 forfeited Shares	50	0	0	" Call Account:— £5 a Share on 1,000 Shares	5,000	0	0
" Balance carried down	9,900	0	0				
	£10,000	0	0		£10,000	0	0
				By Balance brought down ..	£9,900	0	0

CALL ACCOUNT.

	£	s	d		£	s	d
To Share Capital Account:— Call of £5 a Share on 1,000 Shares	5,000	0	0	By Cash	4,950	0	0
				" Transfer to Share Capital Account, being Calls unpaid on forfeited Shares ..	50	0	0
	£5,000	0	0		£5,000	0	0

FORFEITED SHARE ACCOUNT.

			£	s	d
		By Share Capital Account:— Cash received on account of 50 Shares now forfeited	50	0	0

BALANCE SHEET.

	£ s d	£ s d		
To Share Capital :—				
Issued, 1,000 Shares of £10 each	10,000 0 0			
Less 10 Shares forfeited ..	100 0 0			
		9,900 0 0		
" Forfeited Share Account ..		50 0 0		

On auditing the accounts of a small trading concern, the books of which are kept on the Single-entry System, the Directors place before you a statement of Receipts and Payments, showing a surplus of receipts. What objection would you raise to this surplus being relied upon as a profit available for dividend?

Briefly, there are two great objections to relying on a balance of receipts and payments as showing the profit of a concern.

(1) A Receipts and Payments Account is merely a summary of the cash that has been received and paid during the period, therefore anything which may be owing by or to the business at any time is not taken into account until it is actually paid or received.

(2) A Receipts and Payments Account consists of capital as well as revenue items, and capital receipts and payments have no bearing on the profit available for dividend. For instance, if just before the close of the year there had been a new issue of shares by the company, the Receipts and Payments Account would show a large balance in hand. On the other hand, if new additional fixed assets had been bought and paid for prior to the date of the Balance Sheet, the balance of cash in hand would be decreased by that extent.

Among other matters not dealt with in a Receipts and Payments Account are the fluctuation of stock on hand and other floating assets at the end of different years, and the question of depreciation of fixed assets.

The only way to find the true profit available for dividend is to analyse the books, thus virtually converting them into double-entry; and to then prepare from them a Profit and Loss Account, after taking into account outstandings at the commencement and end of the period.

A lease of certain lands was acquired by a Company at its incorporation on 1st January 1900, and you are auditing its first annual Balance Sheet after a successful year's trading. Depreciation has to be allowed for, and you ascertain that the lease was for 21 years from Christmas 1896. The manager says that it has 17 years to run; he proposes to write off one-seventeenth of the cost of the lease every year, and the secretary urges that this is hard on the earlier years, and proposes that a Sinking Fund should be created to produce the total cost by 17 annual instalments. What are your objections (if any) to either or both of these proposals?

As auditor you would have no objections to either of the two alternatives, and the question is really one for the company itself to decide. In the case of writing off one seventeenth each year, the charge would be spread equally against each year's profit; but, as the money is invested in the business, the business would presumably get more benefit from it in the latter years, as it accumulates. When the lease has expired, no specific fund will be earmarked for the purchase of a new lease.

The Sinking Fund method, on the other hand, would involve the investment of the money outside the business, which might not be as remunerative as if used in the business itself. The charge against profits will be equally spread over each year, and the business gets no benefit from the interest on the investment, as this is credited to the Sinking Fund. At the end of the period a specific sum will be available for the purchase of a new lease.

Therefore, the factors that will determine the company's course of action will be :—

Whether or not the company is likely to be short of working capital.

Whether the value of the lease is considerable.

Whether, at the expiration of the lease, a new one will have to be bought.

Whether money left in the business can be employed remuneratively.

How would you audit the accounts of a firm when the only books kept are a Cash Book and a Day Book? All the invoices and vouchers have been preserved.

Strictly speaking, only a Balance Sheet can be prepared from single-entry books, as the raising of the various nominal accounts by analysing the receipts and payments is really equivalent to converting the single-entry into double-entry.

Therefore, to audit the accounts of a firm where the only books kept were a Cash Book and Sales Day Book, would involve only the vouching and checking of the Balance Sheet items.

The auditor would require the receipts for payments to be attached to the invoices, and the creditors would then consist of the totals of the invoices not yet paid. As no Sales Ledger is kept, he would probably expect to see the cash received from debtors marked off against each Day Book item, the items unmarked being debtors at date of the accounts.

The Cash Book would be vouched in the usual way with receipts, and agreed with the Pass Book, and the stock in hand would be taken as usual, and would, of course, be unaffected by the system of bookkeeping. The cash receipts and payments would be carefully looked through for any transactions affecting fixed assets or Capital Accounts.

[A point often lost sight of in questions of this kind is the difference between accountancy and auditing. For instance, if you were asked how you would prepare accounts of a firm where the only books kept were those mentioned above, you would give a description of analysing invoices and receipts and payments, virtually turning the system into double-entry, and preparing a Profit and Loss Account and a Balance Sheet. But, as the question stands, it is presumed that no analysis has been done, and therefore that only a Balance Sheet has been prepared, which you are asked to audit.

It is therefore necessary to look rather carefully at the wording of questions like these, in order to see what the position of affairs really is, and what sort of an answer an Examiner has in his mind.]

State briefly the arguments for and against Reserve not disclosed or referred to in accounts issued to shareholders of a Bank.

The arguments on behalf of secret reserves of a bank are: That the bank depends for its reputation as a sound institution on showing steady profits and on maintaining steady dividends. At the same time, its profits may vary considerably and unexpected losses may occur, but secret reserves may be used to equalise profits and to prevent such losses from appearing in the published accounts.

The effect of this is to maintain the confidence of the bank's customers, and to check speculation in its shares.

The arguments against secret reserves are that the Balance Sheet of the bank does not accurately represent the true position of affairs, and that such reserves are not disclosed to the shareholders. Also, when times are bad, profits shown as earned during the period may be partly composed of drawings on secret reserves, which have accumulated from past profits; and the accounts in this respect create a wrong impression.

At the same time, since such secret reserves are for the good of the business, and therefore for the good of the shareholders, the latter cannot, under the circumstances, complain because the full and accurate state of affairs is withheld from them.

At a meeting of shareholders of a Company, you, as Auditor, are asked to explain why you had signed the Balance Sheet when the items on the credit side were not saleable at the amounts placed against them. What would be the nature of your reply?

In the first place, you are required by the Companies Acts to "sign" the Balance Sheet, whatever the state of affairs may be. So, presumably, the examiner means here that you have given a clean certificate, which the shareholders require you to justify.

You would say in your reply that assets in a Balance Sheet are stated, as far as possible, at their value to the business as a going concern, and not at a breaking-up price. Floating assets are stated at or below selling-price, but fixed assets stand at what they cost, less deductions for depreciation, and, as a rule, their saleable value would not be taken into account in entering them in the Balance Sheet from year to year.

A Balance Sheet does not claim to be an exact valuation of every asset at a particular date; it is a statement showing, as accurately as possible, the worth to the business of its assets, judged by the standard of what the business paid for them, and what has been their deterioration since.

In addition to this, there are various items on the credit side of a Balance Sheet which are not strictly tangible assets, and which cannot be held to have a value apart from the business as whole, and which certainly may not be saleable at their Balance Sheet figure. These include exceptional expenditure brought forward temporarily, payments in advance, goodwill. As long as items of this kind are clearly stated in a Balance Sheet, their nature must be quite apparent to shareholders.

A Company issued on 1st January 1900 a thousand 5 per cent. debentures of £100 each at £95. Interest

payable to 30th June and 31st December on the following day. One hundred of these debentures are redeemable at par annually on 1st January, commencing on 1st January 1903. How would you set out in the Balance Sheet at 31st December 1903 the items referring to the debentures?

(N.B.—Income-tax not to be taken into consideration.)

When first issued at a discount these debentures should be stated on the liabilities' side of the Balance Sheet at par, and the discount on the assets' side.

As these debentures are redeemed by ten annual drawings commencing 1st January 1903, the last drawing will take place on 1st January 1912, and the figure of discount on issue of debentures must be written off by this date. Therefore, the last year which bears this expense will be the year ending 31st December 1911.

The Balance Sheet on 1st January 1900 will show—

To Debentures ...	£100,00	By Discount on issue of Debentures	£5,000

This £5,000 must be written off between 1st January 1900 and 31st December 1911, which is twelve years. Therefore, each year must bear $\frac{£5,000}{12}$ = £416 13s. 4d.

At 31st December 1903, four amounts of £416 13s. 4d. will have been written off the £5,000, while on the other side of the Balance Sheet debentures amounting to £10,000 will have disappeared—viz., those drawn on January 1st 1903.

The Balance Sheet at 31st December 1903 will appear thus—

To Debentures ...	£90,000	By Discount on issue of Debentures, less amounts already written off ...	£3,333 6 8
" Half-year's interest on Debentures	2,250		

On the 1st January following the debenture interest will be met, and another £10,000 of the debentures paid off.

[This question appears quite simple, but, nevertheless, wants careful consideration to avoid making mistakes of dates and periods.

It was set in the Intermediate Examination in June 1905, and both the answers given in the "Students' Telephone" and "Accountants' Manual" respectively are wrong.]

If you find that a revaluation of the property of a Company has been made showing the value to be in excess of its book value, and such excess taken to credit of Profit and Loss, what would you, as Auditor say? or, in case of the valuation not coming up to book value, what would you say?

In the ordinary way an unrealised profit on valuation of a fixed asset is not a profit available for dividend, but a capital profit, and if such profit had been taken into the Profit and Loss Account, you, as auditor, would call attention to the fact in your certificate.

On the other hand, if it was clearly proved that the excess arose from too much depreciation having been written off the asset in the past, and not from a fluctuation independent of the business, the auditor would have

no objection to its being taken to Profit and Loss provided that the shareholders were acquainted with the facts. In this case it would really consist of under-estimated profits of previous years.

The same principle would hold good in the case of a valuation showing that the book figure was too large. If the difference arose from fluctuations in the market value of the property the loss would be a capital one, and the auditor would not feel it his duty to point out the fact in his certificate, provided the asset was stated "at cost." If, on the other hand, the loss has arisen because insufficient depreciation has been written off in past years, the auditor would state in his certificate that the depreciation previously written off had been found to be insufficient. At the same time there is no legal compulsion for a company to write depreciation off fixed assets, and the auditor could certainly not make this a "requirement," but would simply report the fact in his certificate.

N.B.—This question asks for the duty of an auditor who has a Balance Sheet laid before him to be certified. He is not in a position to make any alterations in it, or even to advise any being made. He has simply to decide on the wording of his certificate under the circumstances.

If, on the other hand, he is asked to advise as to the treatment of any particular assets, the position of affairs is quite altered. His opinion is asked as an expert accountant, and the fact that he is also the auditor does not affect the question. He would advise the most financially sound method of dealing with the assets, which in the cases above would be to write off a deficit over a term of years and to credit a surplus to a Reserve Fund or leave the asset as before.

In closing the accounts of a Firm or Company for a period, provision is often made for discounts deducted from debtors' accounts upon settlement. On the other hand, you, as Auditor, frequently find that no such provision has been made. Give arguments for or against making such provision.

The arguments for reserving for discounts to be deducted from debtors' accounts are—

(1) Taking book debts in full is equivalent to taking as an asset an amount the whole of which will not be received in cash, and which is, therefore, only worth its cash value. The asset is thus overstated.

(2) By not allowing for a discount, the profit on the sale resulting in the debt is taken into one period, and the expense of collecting such balance falls on another period.

The only argument against making such provision is that discounts are given in order that a business may require less floating capital, and the advantage to the business of the early liquidation of a debt does not accrue until the cash comes in.

Therefore, the expense of obtaining an early settlement falls on the period which gets the benefit of the settlement.

In the conduct of a business carried on by a Limited Company, 100 looms are in use, and are included in the Balance Sheet at £40 apiece, which is the cost price after deducting an adequate yearly sum for depreciation. These looms cost originally £60 apiece, and the cost of all necessary repairs has been charged to Revenue. New

looms can, however, be bought to-day for £30 apiece, so that there is a difference of £1,000 between the present market price and the amount at which they are valued in the Balance Sheet.

Should you consider it necessary to call attention to this fact in your Audit Certificate? Give your reasons.

In the ordinary way you would not consider it necessary to call attention to the above circumstances in your certificate.

Fluctuations of this nature in the value of fixed assets need not be taken into account in preparing a Profit and Loss Account, and any loss under this head is a Capital and not a Revenue loss.

The company paid £60 each for the looms, and when proper depreciation has been deducted the looms are still worth to the company the £40 apiece at which they stand in the books.

At the same time, if the difference between the current market value of new looms and the book value of the company's looms was very considerable, having regard to the size of the business, an auditor might consider it advisable to call the shareholders' attention to the fact in his certificate.

A firm expends large sums upon advertisements in order to form a business. Assuming that the expenditure thereon decreases annually until in the seventh year it reaches a point representing a normal cost under this head, how would you expect the amounts to be treated in each year's Balance Sheet?

In your reply let £14,000 be the expenditure of the first year, and decrease £2,000 annually.

The point here is that that portion of the advertising expenditure which is abnormal may be spread over the period during which it is likely to prove remunerative.

As the charge in the first year of the seven years is £14,000, and the yearly decrease is £2,000, the normal expenditure reached in the seventh year is £2,000.

Therefore, the normal expenditure of each year is the difference between the total paid for advertising and £2,000.

The period over which to write off this special expenditure would depend on the nature of the business, the kind of article advertised, and the nature of the advertisement.

For instance, an advertisement in a newspaper or magazine would cease to be effective very soon after the publication became out of date. The cost of this should be written off in the same year, as, however abnormal the expenditure might be, the benefit of it would only be felt for a very short period.

On the other hand, there would be no objection to spreading the cost of more permanent advertisements (*e.g.*, sky signs) over several years.

CHAPTER X.

PRACTICE QUESTIONS SET AT THE EXAMINATIONS OF THE INSTITUTE OF CHARTERED ACCOUNTANTS, AND DATES WHEN SET.

THE following are representative Examination Questions on Auditing subjects: the dates being given in order to enable students to refer to the various sets of answers published thereto:—

The annual accounts of a Wagon Company, whose business consists of building and purchasing wagons to lease on purchasing agreements over a period of years (the total hire and purchase price being paid by equal monthly or quarterly instalments) are placed in your hands for audit. To what special points would you give your attention before certifying the balance of profit and loss.

Set out a specimen statement of the assets in the Balance Sheet. [Final, December 1905.]

In the audit of a Company's Accounts for a year in which the Company had made a loss, or no profit is available for dividend, would it be necessary to distinguish as particularly as in other years, when a dividend was payable, between expenditure on Capital Account and expenditure chargeable against Income or Profit, and why? [Intermediate, June 1901.]

You find amongst the assets in a Balance Sheet an item of Goodwill. What considerations should guide you as to its value? [Intermediate, June 1898.]

If you, as a Chartered Accountant, were consulted by Directors as to paying an interim dividend, what would you advise? What information would you consider necessary to enable you to form an opinion? Would your views be modified if you were the duly appointed Auditor of the Company? [Intermediate, December 1901.]

In auditing the Accounts of a Company there is produced to you, as security for an advance, a certificate in the name of the borrower for 200 fully-paid shares in another Company, and an unstamped transfer executed by the borrower for them left blank as to transferee, consideration, and date. Can this be passed as a loan secured on the shares, and what importance do you attach to the blank transfer, and why?

[Intermediate, June 1900.]

You are auditing the annual Accounts of a Trading Company, which is possessed, *inter alia*, of a Leasehold Warehouse. The Lease has 40 years to run from the date of the last Balance Sheet, and the outlay on this Leasehold stands now and stood then at £20,000.

The Company is in prosperous circumstances, and differing views are held by the Directors as to the proper treatment of Depreciation on this Leasehold. The Lease was acquired ten years ago, on the formation of the Company, under a contract with vendors, and is considered to have a realisable value of about £25,000. The outlay

has been incurred as to £10,000 by rebuilding two years ago, since when nothing has been written off. No systematic treatment of the subject has been adopted, but considerable sums have been written off from time to time out of profits earned in previous years. Dividends are only payable out of the profits of the Company. You are asked to decide between the following views:—

(*a*) Nothing need be written off at all, because the property was acquired from the vendors under a contract sanctioned in the articles, which contain no special provisions as to Depreciation, and because the Lease would now sell for what it stands at or more.

(*b*) The most convenient plan is to continue applying occasionally such profits as it is not decided to divide.

(*c*) An equal fortieth part should be written off annually.

(*d*) A Sinking Fund should be created and compounded so as to produce £20,000 in 40 years.

What do you recommend, and why?

[Final, June 1900.]

Give your reasons for or against the desirability of an Auditor revising the form and wording of a Company's Balance Sheet to which his Certificate is to be affixed.

[Final, December 1905.]

In a prosperous Limited Company the original 2,000 debentures of £100 each at 5 per cent. interest will become payable on 1st January 1909 at £105 per cent.; and "A" Debenture Stock £100,000 at 4 per cent. will be redeemable at the option of the Company at the same time at 110 per cent. How would you have these stated in the Balance Sheet of 31st December 1898.

[Final, June 1898.]

On the 1st January 1898 a Brewery Company bought a fifty years' lease of a public-house for £15,000, and sold an under-lease, less a few days, to the tenant for £14,500, by which he was tied for beer under a penalty of cancelment of the lease. He paid £500 to the Brewery Company, and borrowed £5,000 from a bank on first mortgage of the lease, the Brewery Company guaranteeing it; and he borrowed £9,000 from the Brewery Company on second mortgage, repayable £200 per annum. How would you have these stated in the Company's Balance Sheet at 31st December 1898, and give your reasons, assuming that the interest and the first instalment of £200 had been paid up on that day?

[Final, June 1898.]

In giving your Certificate after auditing a Company's Accounts, which you find to be in order, could you say that "the books are substantially correct as a register of transactions"? Give reasons for your reply.

[Final, June 1899.]

Suppose that in making up the Accounts of a firm of merchants you found a considerable number of Debtors standing on the books which evidently should be written-off as bad, but the partners of the firm, for reasons of their own, declined to allow you to write off the amount, what steps would you take to protect yourself from being held responsible for the accuracy of the Balance Sheet?

[Final, December 1896.]

State briefly what you would do, prior to commencing the examination of the books and accounts, on having been appointed Auditor of a Company under the Companies Acts. [Final, December 1893.]

Criticise the following Balance Sheet. Is it really a Balance Sheet? If not, what is it? If you do not approve of it, amend it.

BALANCE SHEET.

Dr.	£	s	d	*Cr.*	£	s	d
To Share Capital, £15 per Share paid upon 100,000 £20 Shares	1,500,000	0	0	By Freehold and Leasehold Land, Colliery Buildings, and Plant	1,012,811	8	3
" Amount paid in advance of Calls	304,275	0	0	" Stock-in-Trade, Ledger Balances, Investments, and Cash in hand and at Bankers..	3,267,701	7	11
" Reserve Fund	500,000	0	0				
" Insurance Fund	121,454	18	5				
" 4 % Mortgage Debentures	900,000	0	0				
" Sundry Liabilities	855,829	12	6				
" Balance for the Half-year, carried down	98,953	5	3				
	£4,280,512	16	2		£4,280,512	16	2

	£	s	d		£	s	d
To Proposed Dividend at 12½ % per annum for the Half-year, free of Income-tax	93,750	0	0	By Balance brought down	98,953	5	3
" Amount proposed to be carried to the credit of the Insurance Fund	5,203	5	3				
	£98,953	5	3		£98,953	5	3

[Final, June 1899.]

Criticise the following Balance Sheet. State what improvements you would suggest, and your reasons for them.

BANK OF NEW ENGLAND, LIM.

Liabilities.

Capital (2,000,000 Shares of £30 each, on which £20 per Share has been paid up)	£2,000,000
Reserve Fund	500,000
Notes in Circulation	522,750
Bills Payable	770,347
Deposit and Current Accounts	8,473,421
Other Liabilities	114,214
Profit and Loss	53,148
	£12,433,880

Assets.

Coin and Cash Balances with Bankers		£1,303,756
Bullion in hand and in transit		173,770
Money at Call and Short Notice, Bill Receivable, Government Securities, and other Securities in London, &c.		2,667,636
Investments in the Colonies, viz.:—		
Colonial Government Securities ...	£878,432	
Municipal Securities	119,953	
Other Securities	266,201	
		1,264,586
Bills Discounted		2,276,421
Other Advances and Securities and Debts, &c., due to the Bank		3,975,489
Landed Property, Premises, &c.		772,222
		£12,433,880

[Final, December 1901.]

CHAPTER XI.

THE following particulars will be found useful by candidates who can ascertain some six weeks prior to the examination the name of the examiner setting the Auditing paper, and by means of this Table can refer to previous papers set by him.

TABLE showing Examiners who have set the Auditing Papers for the Ten Years ending May 1907.

(Institute of Chartered Accountants.)

	1896	1897		1898		1899		1900		1901		1902		1903		1904		1905		1906		1907
	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	May	Nov.	May	Nov.	May
J. B. Ball..	I.F.	..	..	..	..	..	..	..	..	..	..	..	F.	..	..	..	..	..	..	..	..	..
J. W. Barber	..	..	..	..	..	..	I.	..	..	..	..	..	..	..	I.	..	I.	..	F.	..	..	..
W. H. Fox	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	I.
J. Gane	..	..	..	..	..	..	..	..	I.F.	..	..	..	..	..	..	..	..	..	..	..	..	..
B. W. Hardcastle ..	..	..	..	..	..	..	..	I.F.	..	..	..	..	..	..	..	..	..	..	..	..	..	..
D. Hill	..	..	..	I.F.	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
W. C. Jackson	..	I.F.	..	..	..	..	..	..	..	..	I.	..	..	..	..	..	..	..	..	..	..	..
A. A. James	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	F.	..	..	..	..
H. Woodburn Kirby ..	..	..	..	..	..	..	..	..	..	..	F.	..	I.	I.	F.	..	..	..	..	F.	I.	..
G. Walter Knox ..	..	..	..	..	..	I.F.	..	..	..	..	..	F.	..	..	..	F.	..	..	..	..	..	..
F. W. Pixley	..	..	..	..	I.F.	..	..	..	..	F.	..	..	..	F.	..	..	F.	I.	I.	I.	F.	F.
F. J. Saffery	..	..	..	..	..	..	..	..	..	..	..	I.	..	..	..	I.	..	..	..	..	..	..
T. G. Shuttleworth ..	..	..	..	..	..	..	F.	..	..	I.	..	..	..	..	..	..	..	..	..	..	..	..
G. E. Swithinbank ..	..	..	I.F.	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

I.—"INTERMEDIATE."
F.—"FINAL."

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